

HEUBLEIN 1982 ANNUAL REPORT

82-1022Z



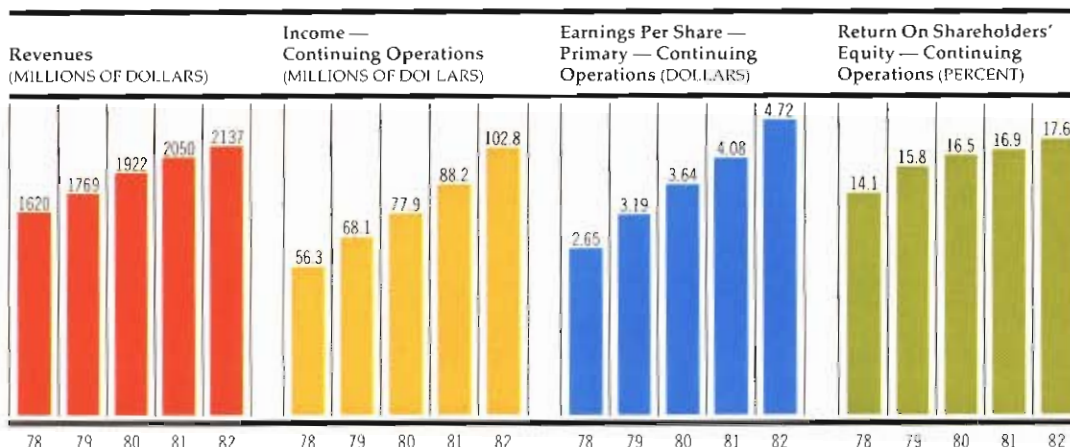




Financial Highlights

(In thousands except per share data)	1982	1981*	% Increase
Revenues	\$2,137,403	\$2,050,121	4.3%
Income before income taxes	197,730	168,036	17.7
Income taxes	94,910	79,822	18.9
Net income	102,820	88,214	16.6
Dividends declared	42,052	38,036	10.6
Shareholders' equity	616,034	549,408	12.1
Average number of common shares outstanding	21,803	21,626	.8
Per common share:			
Earnings—primary	4.72	4.08	15.7
Earnings—fully diluted	4.53	3.92	15.6
Dividends declared	1.955	1.78	9.8
Shareholders' equity	28.33	25.48	11.2

*Restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.



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Chairman's Letter:



Hicks B. Waldron

Dear Fellow Shareholders:

It was an exciting year, a challenging year, a sometimes frustrating year, but in the end, a highly successful year for Heublein and its shareholders.

It was a year of record sales and earnings for Heublein, as the company successfully fought to overcome the impact of a worldwide recession. While our success raised our visibility in the finan-

cial community, it also increased our attractiveness as an acquisition candidate.

When it became inevitable that we would be acquired by someone, your management and board researched and sought out the company with whom we would best fit and to whom we would have the greatest appeal. Our choice was R. J. Reynolds Industries, a worldwide consumer products company whose strengths complement ours.

They, too, saw benefits from a merger, and shortly after the end of the fiscal year an agreement was reached between the two companies and unanimously approved by the boards of both companies. Reynolds successfully acquired 57.2 percent of the stock at a price that was equitable for Heublein shareholders and for Reynolds.

Reynolds is acquiring an aggressive, strong and increasingly well-balanced company. For more than a decade, the company has labored to establish a greater equilibrium between our food and beverages businesses and between domestic and international operations. The results of this strategy were apparent this year.

Net income rose by 17 percent, earnings per share by 16 percent and sales and revenues by 4 percent.

Confronted with economic, market and competitive conditions that ranged from difficult to horrendous, the company's performance was outstanding. It did not come easily. It was the result of following carefully crafted strategic plans that were solidly based on an accurate reading of consumer sentiment.

Our strategy included continuing our aggressive investment in marketing, which helped mitigate the effects of the recession at the same time it positioned the company to take advantage of a future recovery, and investment in capital programs, most of which was channeled to Kentucky Fried Chicken, to build new stores, to remodel older units, and to acquire franchised units.

The results of all these investments, together with the dedicated work of the company's employees, are manifold:

- Smirnoff sales in the United States were stabilized, after having fallen 8 percent in 1981. Contributing to this was a new advertising campaign that emphasized the quality and value of Smirnoff.
- Smirnoff overseas revenues increased by 16 percent, and sales approached 6 million cases, strengthening the brand's position as the No. 1 brand of distilled spirits in the world.



Stuart D. Watson

Salute to Stuart Watson

During his sixteen years of leadership, Stuart D. Watson transformed Heublein from a small alcoholic beverage company to an international food and beverage company.

When he joined the company as president and a director in 1966, Heublein had sales of \$363 million. Sales had quintupled when he retired from the office of Chairman at the end of the fiscal year on June 30, 1982.

The other statistics of Heublein's growth under Mr. Watson's direction are equally impressive:

- Heublein's total assets were \$129 mil-

lion when he came with the company. Today they exceed \$1 billion.

- Shareholder equity grew 650 percent, from \$82 million to \$616 million.
- Earnings have grown from \$14 million to \$103 million.
- Dividends have increased more than six-fold, from \$6 million to \$42 million.
- Heublein has risen from the sixth largest spirits company in the country, to become the second largest.

His greatest contribution, however, was in positioning Heublein in businesses where there continues to be growth.

The first acquisition under his direction, in 1969, was into the wine business. That year Heublein acquired

- Heublein's wine businesses gained strength as the year progressed. Beaulieu, the company's super-premium wine, set new sales and profit records. Inglenook wines resumed their double-digit growth and are one of the fastest-growing premium brands. The popularly priced Colony table wines, with their improved quality and new packaging, also increased market share in the second half.
- The company's domestic Kentucky Fried Chicken restaurants scored their fourth consecutive year of sales and earnings growth. Market share also increased substantially, as KFC continued to outperform the industry and direct chicken competitors.
- Kentucky Fried Chicken units abroad continued their real growth, even though foreign currency translations held down results when converted into U.S. currency. In spite of a strong dollar, KFC International had record sales and earnings.
- The company's Grocery Products Group increased sales of A.1. Steak Sauce to more than 4 million cases, and its Grey Poupon Mustard grew in double digits. These records were set in the face of sharply increased competition.
- With these achievements, the compa-

ny's financial position was strengthened. Strong, positive cash flow allowed us to pursue marketing and capital investment programs that are critical to building larger consumer franchises for our brands.

I think that special recognition should be given to Heublein's employees, who were responsible for our record performance, and who made a special contribution through profit improvement programs at the group level. Their achievements would have been noteworthy in any year. But this was not any year. The economy was dismal, but they rose above that. A lesser group of people might, understandably, have been demoralized, or at least distracted, by the takeover rumors and attempts that swirled around them most of the year.

Instead they performed like the seasoned professionals they are. Heublein and Reynolds are fortunate to have them.

Similarly, I think that a special word of recognition is in order for your Board of Directors, who also worked long and hard in the interest of the shareholders. Their dedication and support were exemplary.

And, in the end, they recommended a course of action that they believe is in the best interests of the shareholders.

At the same time, we believe it is also in the best interests of our employees, the communities in which we do business, our suppliers, our customers and our franchisees.

The considerable resources of Reynolds can be used to great advantage to grow the consumer products that it is acquiring with Heublein. Similarly, we think that the people and products that Heublein brings to Reynolds will contribute to their growth.

I would be less than candid if I didn't say that Heublein's acquisition by R. J. Reynolds has bittersweet overtones, simply because the company will not continue long as an independent entity. However, this is more than counterbalanced by the fact that the organization, its employees and shareholders, will have an opportunity to flourish as part of a much larger company.

The entire Heublein organization should take great pride in the fact that we are being acquired, not because we failed, but because we succeeded.

Hicks B. Waldron

Hicks B. Waldron
Chairman and President
August 15, 1982

United Vintners, the nation's second largest wine company, and Beaulieu Vineyard, one of the most prestigious makers of super-premium California wine. He identified wine as a growth industry, and events have proved him right. Wine sales have more than doubled in the last decade.

Mr. Watson's marketing skill was manifest in his recognition that the quick-service restaurant industry was another growth industry. As a result of his conviction, Heublein acquired Kentucky Fried Chicken in 1971. Conventional wisdom at the time held that the fast food business was mature. Since then, however, the number of KFC units has more than doubled and sales

have more than tripled.

Just as he expanded the company's foods business, seeking a better balance between foods and beverages, he also led the company into overseas projects, in search of a better balance between domestic and international business. During his stewardship, Heublein entered into joint venture agreements with: the Fonseca winery, which makes Lancers wines in Portugal; Grupo Cuervo, which makes tequila and is the company's Mexican partner in Kentucky Fried Chicken; and Cointreau, which makes and markets Smirnoff in Europe. In 1973, the company acquired Brazilian whisky and wine businesses that made Heublein the largest alcoholic beverage

company in South America.

The company's Grocery Products Group greatly expanded its line of Ortega Mexican-style foods, and is now one of the market leaders in this segment. At the same time, all of the company's major brands grew apace.

In his role as Heublein's leader, Mr. Watson demonstrated a deep and abiding sense of social responsibility. He served and continues to serve on the boards of a large number of community, state and national philanthropic organizations.

He continues as a consultant and will continue as a member of the Heublein board and subsequently the R. J. Reynolds board.



On a lazy summer afternoon, the place to sip Smirnoff may be on a hammock in a sunlit backyard. Other times, the scene for sipping might be an exotic

BEVERAGE OPERATIONS

In a difficult year for beverages around the world, Heublein's three beverage groups held their own and made new investments in programs and people to prepare for future growth even as they worked to minimize the effects of the recession.



JOHN A. POWERS
Senior Vice President
Beverage Operations

Operating profit rose five percent, to \$140,661,000 from \$133,629,000 as total revenues increased one percent, to \$1,264,171,000 from \$1,255,043,000.

An outstanding accomplishment of the year was the stabilization of domestic sales of Smirnoff Vodka, which had declined in the prior year. Wine sales increased in the U.S., while overseas beverage results were mixed.

SPIRITS GROUP

Total revenues, at \$818,869,000, were slightly higher than the prior year. Total case shipments were down two percent, but operating profit was up.



vacation island. That's the kind of versatility that makes Smirnoff the number one vodka in the U.S. and the best selling brand of liquor in all the world.

Smirnoff sales were off less than a percentage point, compared to a decrease of eight percent in the prior year. The decline was halted while maintaining margins on the product.

Two key factors in the upswing of profits were an alert purchasing organization that took the best advantage of lower ingredient costs, and a group-wide performance improvement program that contributed more than \$15 million in incremental profits in fiscal year 1982.

Operating Environment

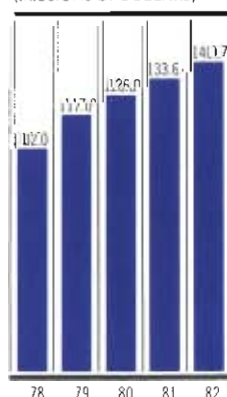
In a sluggish and erratic economy, to-

tal U.S. spirits industry sales in the year were almost 165 million cases, down slightly from fiscal year 1981. But some spirits categories did grow, and they were the categories in which Heublein has a strong position.

There was growth in vodka and tequila, as the trend away from traditional whiskeys continued. The strongest of the whiskey categories was Canadian, where Heublein is also a leader.

As the economy improves, the spirits industry can expect to benefit. Its prime consumption group, aged 25-44, is one of the fastest growing population segments. Heublein has the added advan-

Worldwide Beverage
Operating Profit
(MILLIONS OF DOLLARS)





After a rousing performance of the vintage Broadway musical, "High Button Shoes," the performers turn to contemporary hits from Heublein for their cast party.

tage of leadership in the growth categories, along with the continued swing in consumer preference toward the light, the flavorful, and the mixable in drinks.

Strategy for Growth

The Spirits Group continues to position brands in the most rapidly growing categories and subcategories, and to put heavy advertising and promotion behind key premium brands. It's also looking closely at consumer preferences from market to market, and focusing resources in the markets that offer the

greatest opportunity for growth and profits.

Improved productivity and closer teamwork are key considerations throughout the group. The field sales force, recently reorganized, has set a goal of sophisticated sales execution aimed at the retail level that will be unique in the spirits industry.

Performance Highlights

Major developments for the year included:

- Aided by a 12 percent increase in advertising, merchandising and promo-

tional spending, Smirnoff sales leveled off and are no longer in decline. The brand is poised for renewed growth in fiscal 1983. The new advertising theme stresses Smirnoff's quality and its value, and is targeted at specific market segments.

- Popov Vodka shipments were down five percent for the year as expected, but the brand's earnings were again up significantly as Heublein continued its strategy of increasing margins. Popov remains the nation's second best-selling vodka by a wide margin.
- Black Velvet case sales were up one



The photos were taken in the auditorium and lounge area of the Goodspeed Opera House in Haddam, Connecticut, a leading show place in the Northeast.

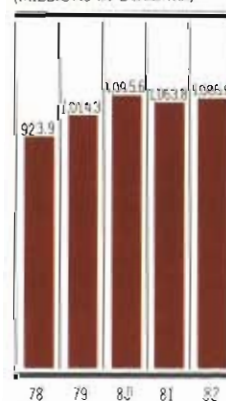
percent, outperforming the Canadian Whisky category. Advertising was focused on proven Black Velvet market areas, and sales neared the two-million case mark.

- Both The Club and Heublein Cocktails shipments were down, reflecting the prepared drink category's extreme sensitivity to the economy. But both brands gained market share.
- Arrow Cordials retained its position as one of the best selling lines of cordials in the U.S.
- Led by the premium and highly profitable Cuervo Especial, Jose Cuervo

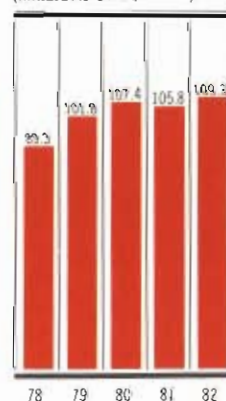
Tequila had a shipment increase of over one percent. The brand is firmly entrenched as the category leader.

- Sales of both Harveys Bristol Cream sherry and Lancers wines were below year-ago levels. But both brands showed renewed strength at year-end. Lancers' popular six pack of 187 milliliter bottles successfully expanded into five new test markets early in the year and went nationwide in June.
- Sales of Yukon Jack Canadian Liqueur continued to surge, with an increase in the year of nearly five percent.

Domestic Beverage Revenues (MILLIONS OF DOLLARS)



Domestic Beverage Operating Profit (MILLIONS OF DOLLARS)





An artist's life is a great way to live, particularly when Heublein spirits products are part of it. Here The Club Cocktails go to the shoreline with a watercolorist.

- American Creme, a modestly priced U.S. answer to expensive imported cream liqueurs, reached a volume only nine months after its introduction in September that was more than double the projections for the full year. Another promising new product was Steel, a proprietary peppermint schnapps, which also exceeded projections.
- Spirits manufacturing held total unit labor cost to a four percent increase in fiscal 1982, through productivity increases of nine percent. Using ideas developed throughout the organiza-

tion, the Spirits performance improvement program resulted in substantial cost savings and increased sales and profits.

WINES GROUP

Wine remained the fastest growing segment of the U.S. beverage industry despite a slight decline in its growth rate. Nevertheless, Heublein's Wines Group turned in a healthy revenue gain of six percent, to \$266,856,000, with the final quarter showing strong volume.

The group substantially increased advertising and sales promotion, focus-

ing on the fast-growing, highly profitable dry table wine segment, which now accounts for 75.2 percent of the group's production. The group outperformed the industry and most of its chief competitors in table wine volume growth throughout most of the year, particularly in the second half.

Operating Environment

Even though the growth rate slowed, total U.S. wine consumption surpassed the 500 million gallon mark for the first time. Industry observers project consumption will be one billion gallons by



Above right, a selection of Heublein spirits helps make guests welcome at an open house at Wind-Over-Water Crafts Studio in Connecticut.

the end of the decade.

Competition in all segments of the industry intensified. Major California wineries were particularly aware of increasing competition from France and Italy, where the marketing efforts of wine producers receive financial support from government.

Wine consumers were confronted with a variety of new products, including wine in cans and plastic jugs, and "light" or low-calorie wines. In this varied marketplace, consumers continued to show strong preference for white wines and to demonstrate an acute

awareness of price in an uncertain economy.

Meanwhile, the prestige of Heublein's fine California wines continues to grow. As one measure, the prices paid for Inglenook and Beaulieu wines at the 1982 Heublein Premiere National Auction of Rare Wines averaged \$409 a case, compared with \$250 two years ago.

Strategy for Growth

Wines should remain the fastest growing alcoholic beverage and the growth should increase with an improving economy. The Wines Group will

continue to follow its strategy of capitalizing on this expected growth. This will be achieved through the Group's ongoing program of improvements and efficiencies and expanding volume in wine market segments that are projected to grow the fastest, be the most profitable and offer the highest return on investment.

The group will continue to maintain and improve the quality of its products in all price categories and continue to place heavy emphasis on effective advertising, aggressive marketing, and excellent sales execution.



Whether in a posh penthouse overlooking Manhattan or the back deck of a home in the green suburbs, the fine California wines of Heublein are the essence of

Performance Highlights

The outstanding performers of the year were the premium wines of Inglenook Vineyards and the widely acclaimed new Colony Classic varietal and generic wines.

Colony's eight new Classic wines, in new bottles with cork closures, met with enthusiastic acceptance in the marketplace and added significantly to the brand's overall volume.

Petri, the Wines Group's lower-priced table wine, was up 41 percent in case sales, significantly outperforming its category and reflecting consumer interest in economizing.

Increased grape costs and marketing expenditures dampened group operating profits during fiscal 1982. But this was an investment year for United Vintners, and lower profits had been targeted. The state of the economy appears to be casting a cloud over fiscal 1983 performance, but the long-term prospects for the Wines Group remain very favorable.

BEAULIEU VINEYARD

In its 82nd year of continuous operation, Heublein's prestigious Beaulieu Vineyard again surpassed its goals.

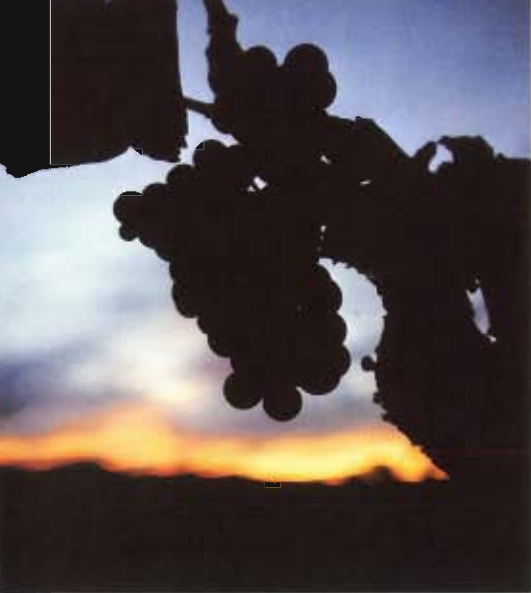
Beaulieu's legendary Georges de

Latour Private Reserve Cabernet Sauvignon continued to draw superlatives from wine critics. And Beaulieu believes its 1979 Private Reserve — to be released in 1984 — will be one of the greatest ever produced at the winery.

Other Beaulieu wines also received plaudits, and the winery continued its tradition of producing consistently high quality wines that reflect the Beaulieu personality and house characteristics — richness, smoothness and balance.

INTERNATIONAL BEVERAGES/ BRAZIL GROUP

Except for the large beverage opera-



good living. Inglenook is one of the nation's fastest growing premium brands, and Beaulieu is the super-premium that stands alone.

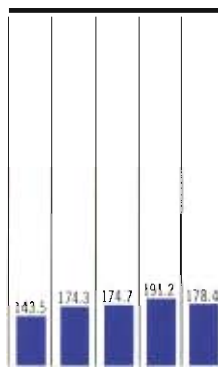
tion in Brazil, hard hit by triple digit inflation and interest rates up to 130 percent, the group had favorable results. Total revenues were \$178,446,000, down seven percent. Excluding Brazil, revenues were up 12 percent.

Even in Brazil, Heublein did better than its competitors, operating profitably and gaining market share.

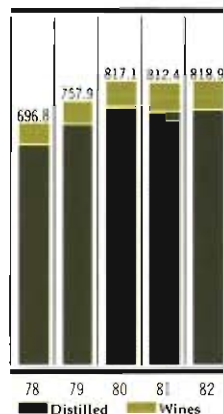
Operating Environment

For the second year, the world economy remained in the doldrums. The spirits market suffered accordingly, and was further victimized by discrimina-

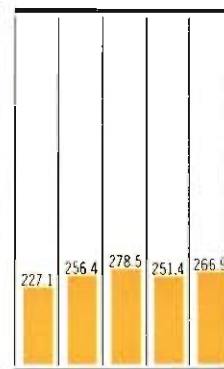
International Beverages/
Brazil Group Revenues
(MILLIONS OF DOLLARS)



Spirits Group
Revenues
(MILLIONS OF DOLLARS)



Wines Group
Revenues
(MILLIONS OF DOLLARS)





Smirnoff Vodka is high style in London, in a pace-setting pub in Mayfair or a fashionable new gathering place on the banks of the Thames. Meanwhile, trendy

tory taxes in Scandinavia and some other parts of Europe.

However, most of the world is still relatively undeveloped in vodka consumption. Smirnoff is positioned at the top in the vodka category in all major western markets, and thus will benefit as the world continues to turn toward lightness in alcoholic beverages.

In Brazil, all business and industry had a difficult year. Interest rates are half again higher than the almost triple-digit inflation rate, causing wholesalers and retailers to cut inventory to the bone. Consumer disposable income was

also down, and for the first time in many years, Brazil's gross national product declined.

Strategy for Growth

Although the move toward lighter spirits and away from heavier brown spirits is worldwide, some markets can be singled out as the highest opportunity areas. They are Europe, Brazil and Japan. And there the group will concentrate its marketing and sales efforts to capitalize on the emerging trend.

The first priority is the further development of Smirnoff through aggressive

marketing. Second is the introduction of Heublein's prepared cocktails in several countries, particularly in Europe. And the next priority is to generate greater efficiencies in the Brazilian operation, now under a new senior management, to set the stage for better performance as that nation's economy stabilizes.

Performance Highlights

In many respects, fiscal 1982 was a year of transition. Only recently separated from Heublein's overseas foods business, the International Beverages/Brazil Group refined its marketing activ-



Netherlanders have taken up a new refreshment—Heublein Pina Coladas—recently introduced in their country for the first time in Europe.

ity in key areas of the world and made important staff additions at Farmington headquarters, in London and in Brazil.

Although Brazilian consumers rearranged their buying priorities, turning to cheaper brands, Heublein increased its market shares in every significant category.

Among other worldwide highlights:

- Smirnoff licensee fees were up substantially for the year, with much of the increase attributable to the retroactive fees resulting from a new contract with International Distillers and Vintners, the Smirnoff licensee in the

United Kingdom, Canada, Ireland and other countries.

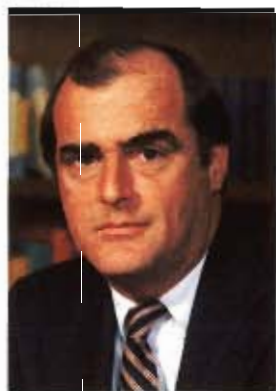
- Smirnoff case sales were up seven percent in Continental Europe, where the product is made and/or marketed under joint venture agreements with Cointreau.
- Income from Smirnoff exports was up over 26 percent.
- Heublein's Pina Colada Cocktail gained a foothold in the Netherlands and is also being sold or is about to be sold in the United Kingdom, Japan, Mexico and Germany.
- Tequila Cuervo, Heublein's Mexican

partner and one of the largest alcoholic beverage producers in that country, is launching a new line of cocktails.

- Yukon Jack, a Canadian import that has attracted a growing following in the U.S., is now also listed for sale in all 12 Canadian Provinces and Territories.
- For the first time, Arrow Cordials are being produced outside the United States by a licensee in the Dominican Republic.



With average sales up 10 percent in company-owned Kentucky Fried Chicken stores like this one in Virginia, the KFC system is the healthiest it has ever been.



MICHAEL A. MILES
Senior Vice President
Food Operations

FOOD OPERATIONS

Heublein's worldwide food operations were especially strong throughout the fiscal year. Operating profit rose to \$110,534,000 from \$90,671,000, a 22 percent increase. Food revenues totaled \$873,232,000, a gain of 10 percent over the prior year's \$795,078,000.

These gains came in the face of greatly increased competition for all three of Heublein's food groups. Both in the U.S. and overseas, Kentucky Fried Chicken outperformed an array of old and new competitors, all anxious to profit from the growing popularity of chicken. And the Grocery Products Group faced new competition from U.S. food giants in most of its major product categories.

FOOD SERVICE AND FRANCHISING GROUP

Results for the year once again underscored the vitality of the Kentucky Fried



And it continues to improve, refining its systems and adding new features, such as the Scratch Buttermilk Biscuits, shown in the dinner above.

Chicken concept, and the validity of the group's emphasis on basic management techniques and procedures, with no detail of store operation too small for analysis and improvement.

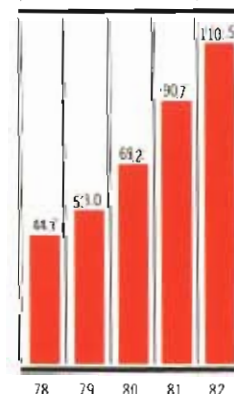
Total revenues increased 12 percent for the year, to \$432,947,000, and operating profit was up substantially. Despite soft sales in economically depressed areas of the Midwest and Northeast, and unusually severe weather that kept some customers away in the third quarter of the year, per-store averages in the 837 company-owned stores were up 10 percent to \$468,000. Two percent of that was real growth.

The 3,641 franchised restaurants showed gains of five percent with average sales of \$355,000.

Operating Environment

This was the third consecutive year that the nation's quick service restaurant industry faced economic adversity. As the recession dragged on in the U.S., many restaurant chains froze their prices and threw money into couponing and other promotions to build customer traffic. KFC, however, followed its basic plan and by doing so, outperformed both the fast food industry and major chicken segment competitors.

Worldwide Food Operating Profit (MILLIONS OF DOLLARS)





Shopping malls are an American tradition, and so is Kentucky Fried Chicken. Now the two are coming together as the KFC system enters this exciting area of

The coming year may offer a more favorable economic climate, and KFC is well positioned to take advantage of a recovery.

Strategy for Growth

The basic strategy of KFC-USA is to fine-tune and amplify the back-to-basics approach that has resulted in four consecutive years of real sales growth, despite increased competition and a sagging economy.

These proven programs touch on every aspect of KFC operations from quality, service and cleanliness, to facilities, advertising and promotion.

Kentucky Fried Chicken continues to build on these programs while constructing new stores, making key acquisitions, and developing second-generation programs for a continuing improvement in sales, productivity and profitability.

Performance Highlights

Entering fiscal 1983, the KFC system is healthier than it has ever been, and is poised to take advantage of any improvement in the economic environment.

During the fiscal year, KFC added a net of 62 units to the company-owned

system—the greatest expansion in seven years. Key acquisitions were:

- Twenty-two units from a franchisee in KFC's headquarters city of Louisville.
- Thirty-six franchised chicken facilities from Host International in Houston, raising total Houston stores to 81 and making KFC the largest quick service chain in this booming Texas metropolis.
- By the end of the fiscal year, KFC had neared completion of its earlier agreement to acquire 69 former Gino's franchised outlets in the central Atlantic area. This is the most important acquisition in KFC history because,



potential growth. The photos above were taken during the recent grand opening week at the new store in Town Square, St. Paul, Minnesota.

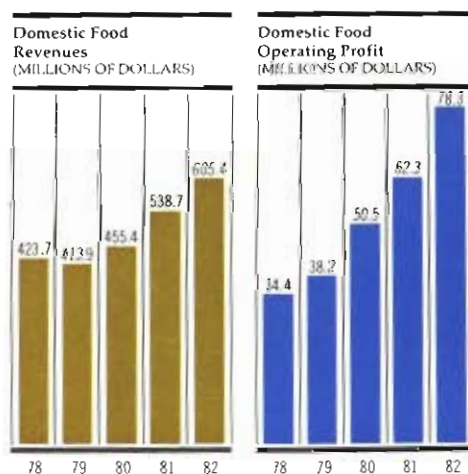
as a result, KFC acquired territorial, operating and development rights for a region of 22 million population including New Jersey, Maryland, Delaware, the District of Columbia and parts of Pennsylvania, Virginia, and North Carolina. The acquisition was completed early in the new fiscal year.

Some other highlights of the year:

- Sixty company stores were image-enhanced during the year. There are now 606 company stores in the new image, or 72 percent of the total.
- Quality-Service-Cleanliness scores, based on inspections of "mystery shoppers," set another record, climb-

ing to an average of 94 points out of a possible 103.

- KFC franchisees' voted overwhelmingly to increase their advertising dollars spent on network television by 33 percent, or \$7 million. This insured the expansion of the extremely successful "We Do Chicken Right" campaign, which has generated more consumer awareness, more rapidly, than any other restaurant advertising in memory.
- The KFC lunch program, including a real filet chicken sandwich and natural cut fried potatoes, was rolled out systemwide.





More and more, consumers who learned that A.1. Sauce does something special for hamburgers at home are insisting on that same something when dining out.

- The made-from-scratch biscuit was added to the menu in over 200 company stores, where it accounted for six to eight percent of sales. The biscuit is to be offered in all company stores by the end of calendar 1982.
- KFC franchise fees were up seven percent for the year.
- A profit improvement program, based on operations engineering projects and enhanced control/tracking systems, produced savings of \$4.4 million, with additional opportunities identified for next year.
- Lower broiler chicken and other ingredient costs, and favorable labor

costs, also contributed to double-digit gains in operating profit.

- Training programs were expanded and improved across the KFC system. Franchisee use of KFC's audiovisual system for in-store training of hourly workers increased by 35 percent.
- As black consumers represent an especially important market to Kentucky Fried Chicken, the company has sought ways to better serve this customer group. A special menu, featuring spicy chicken, rice and greens, has proved successful in test markets.
- Finally, KFC has launched several promising experiments with new con-

figurations of facilities designed to reach markets not normally covered by standard KFC stores. These include units for shopping malls, "mini-stores" for smaller population areas, "townhouse" stores for big city locations, and others.

GROCERY PRODUCTS GROUP

In almost all its major product lines—steak sauce, mustard, and Mexican style foods—the group faced intensified competition from some of the giants of the grocery industry. Nevertheless, the group had another excellent year.

Revenues went up 13 percent to



Both A.1. and Grey Poupon Dijon Mustard had outstanding sales years, and Ortega Mexican-style foods held their own despite increased competition.

\$172,447,000. Operating income also showed a strong increase. A.1. Sauce and Grey Poupon Dijon Mustard were the primary contributors to the sales growth, while the Ortega Mexican line, slowed by intensified competition, repositioned itself with an improved product and a new marketing approach.

Operating Environment

The \$300 billion food industry, plagued by a weakened economy, grew somewhat less than two percent over the year. Hard-pressed consumers were more careful than ever about spending their money.

Reacting to the times, consumers moved in two directions. Some were more attracted than ever to well-known premium brands, such as A.1. Steak Sauce, since they didn't want to risk their funds on products in which they had less confidence. But others looked for lower priced alternatives such as private label and generic products. Thus it was a year that called for pinpoint marketing strategy and sales execution.

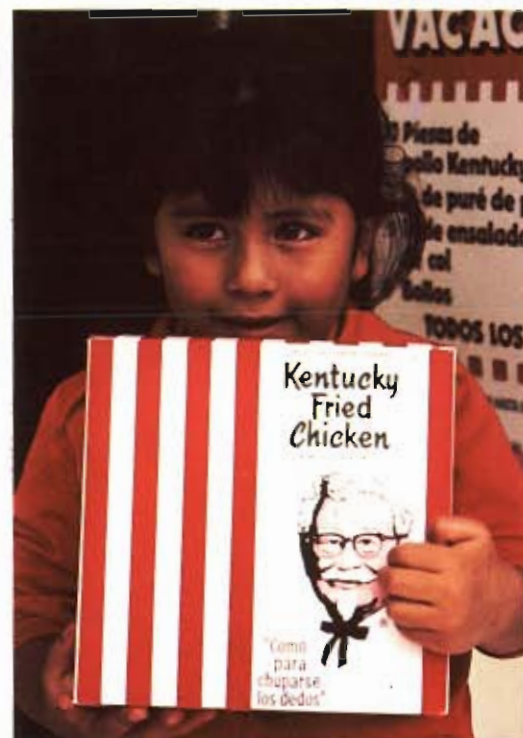
Strategy for Growth

The group sought out areas of opportunity, the better to exploit them, and looked for areas of risk, the better to

shore up its defenses.

One example of an opportunity was the tremendous success of the "Steakburger" advertising campaign for A.1., which says clearly that a sauce that enhances steak will do just as much for hamburger or other lower priced meats. It was only natural to extend the same thought to a restaurant setting in order to create more demand for A.1. in the food service industry, and that was done in 1982.

An example of defensive strategy concerns Ortega Tacos. More and larger competitors were attracted to the category at a time when consumers were



A grandmother in Japan, a child in Mexico, a teenagers' picnic in England—all demonstrate the growing popularity of Kentucky Fried Chicken in 54 nations

more reluctant to buy anything but staples. The category's growth was falling short of expectations, so Ortega stopped promoting the category and began to emphasize Ortega's unique features.

A new campaign begun late in the fiscal year stresses the authentic corn taste of Ortega Tacos, which are made from corn kernels rather than corn flour.

Performance Highlights

Among GPG accomplishments for the year were:

- Aggressive marketing programs, plus strong category growth, led to an

eight percent rise in case sales of A.1. Sauce.

- Grey Poupon Dijon Mustard enjoyed its seventh consecutive year of double digit growth. Case sales were up 13 percent.
- A new television commercial, showing a passenger in a Rolls Royce borrowing some Grey Poupon from a passenger in another Rolls Royce, was tested successfully and went national. It shows that Grey Poupon is a relatively low cost way to enjoy one of the finer things in life.
- Case sales of the Ortega line of Mexican food products were essentially

unchanged from last year. Despite increased competition, Ortega products continued to maintain strong market share positions.

- Aided by coupon merchandising, Regina, the nation's leader in wine vinegars, had steady growth while most competitors struggled. The brand was successfully introduced into San Francisco, the second largest wine vinegar market in the U.S.
- Shortly after the close of the fiscal year, Heublein made a profitable sale of the group's Hart's Bakery division.
- By holding down inventories and reducing its public warehouse space,



outside the United States. International Foods is one of Heublein's fastest growing operating groups, and these photos show why.

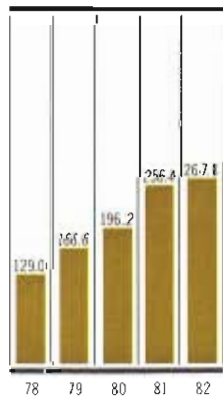
the group decreased net assets by almost 18 percent. This greatly contributed to the group's high rate of return on assets.

INTERNATIONAL FOODS GROUP

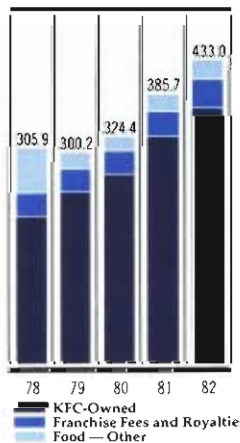
This group, which is responsible for all Kentucky Fried Chicken operations outside the U.S., is one of the fastest growing segments of the Heublein organization. Even with the strong dollar, which reduces the value of sales in local currencies, revenues in fiscal 1982 were up four percent to \$267,838,000. Operating profit was up substantially.

At year's end, there were 1,365 KFC

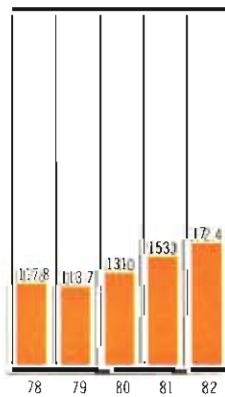
International Food Group Revenues
(MILLIONS OF DOLLARS)



Food Service and Franchising Group Revenues
(MILLIONS OF DOLLARS)



Grocery Products Group Revenues
(MILLIONS OF DOLLARS)





On this picturesque street in Eindhoven, Netherlands, a new Kentucky Fried Chicken store looks and functions just like an American store—except for a few

stores in 54 nations outside the U.S., making Kentucky Fried Chicken the largest overseas chain of quick service restaurants. During the coming year, the company plans expansion in existing markets, such as Japan and Australia, as well as in relatively untapped markets such as Continental Europe, South America and the Pacific.

Operating Environment

To continue its growth during the year, KFC-International had to overcome three stumbling blocks: 1) a deteriorating world economy, 2) a strong U.S. dollar that had an adverse impact on

operating comparisons, and 3) increased competition from major U.S. franchisors expanding overseas.

Despite these pressures, KFC improved its position as the industry leader in its markets. Trends point to nearly unlimited future growth opportunities as world economies grow and as more women enter the labor force, creating demand for high value, nutritious meals away from home.

Strategy for Growth

The group's strategy continues to focus on expanding into new markets and adding new units in existing major

markets, while increasing unit sales and profits. This will be accomplished by encouraging adoption of the programs that have proven so successful in the U.S.

Performance Highlights

With KFC-International now headquartered in Louisville in the same building as KFC-USA, the two companies are in a position to draw on the skills and resources of each other to build an integrated worldwide system. During the year, operations, quality assurance, and strategic planning people were brought in from major overseas subsidiaries for training.



etails like a heavily patronized bicycle rack instead of a drive-through window. Above is the equally busy Shepherd's Bush store in London.

The synergism worked both ways. KFC-USA designers, developing plans for relatively small stores in shopping malls, studied the layout of KFC stores in Japan, where space is always at a premium.

Among the year's highlights:

- The group increased company and franchised stores by more than 100 and achieved real growth in per-store sales averages in most markets.
- In Australia, the largest overseas market in revenues, per-store averages in company-owned stores increased by three percent in U.S. currency, or eight percent in local currency.
- With an increase of 32 stores, bringing the total to 356, Japan became the largest overseas market in number of units.
- KFC-New Zealand, with 38 stores, recorded per-store average gains of 18 percent to \$806,000 in local currency or four percent in U.S. currency.
- Despite a poor economy and bad winter weather, stores in the United Kingdom increased averages in local currency.
- Per-store average sales in Mexico's 39 company-owned units were up 24 percent in local currency, while profits were unfavorably affected by devaluation of the peso.
- KFC's 42 high volume franchised units in Malaysia and Singapore were paced by two restaurants with annual sales of nearly \$2.5 million each.
- Training programs and operations standards were improved and expanded throughout the international system to increase worldwide consistency in store operations and product quality. The Quality-Service-Cleanliness scoring system was standardized, and a QSC audit performed in May showed scores that compared favorably to the scores of KFC stores in the United States.



ORTEGA

ORTEGA
Hot
Taco Sauce

SNAP-E-TON



Regina
Red Wine Vinegar

ORTEGA

A1
STEAK SAUCE
SHAKE WELL

BRAND'S
A1
STEAK SAUCE
FOR SEASONING
AND COOKING
Excels with
Steaks, Hamburgers,
Meatloaf, Roasts,
Pork, Stews & Gravies

"it's
finger
lickin'
good"

Kentucky
Fried Chicken



BOTTLED IN
THE COLONY
CO
N.Y. 22



CHATEAU DE LA COLONIE
CHATEAU DE LA COLONIE MOSELLE
A semi-dry medium-bodied, fruity white wine
COLONY

COLONY

CHATEAU DE LA COLONIE MOSELLE



ORTEGA
Taco
Shells

SAVE
10¢
SEE COUPON
ON BOX

ORTEGA



GREY
POUPON
MADE WITH WHITE WINE
DIJON
MUSTARD
NET WT. 5 OZ.

THE CLUB
MARGARITA



Non-Sweetened

A company is known by the product it sells. So it is with Heublein. As these pages unfold, they reveal a galaxy of some of the most famous and favored beverage and food products in the world. There are tremendously popular spirits products, starting with the world's most popular brand, Smirnoff Vodka. There are the great, world-class California wines, Inglenook and Beaulieu. There are superb specialty foods like A.1. Sauce and Grey Poupon Dijon Mustard. And in food service, there is the product that is fried chicken in 55 nations of the world—the Colonel's incomparable Kentucky Fried Chicken. And there are hosts of other fine foods and beverages, the novas of the company's expanding galaxy.

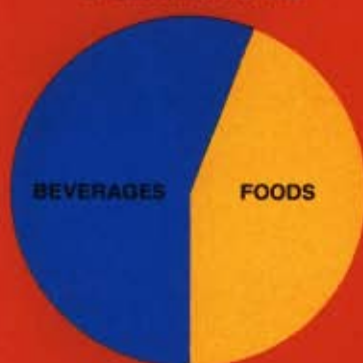
For many years, Heublein has sought a balance in its business between beverages, the original core of the business, and foods, which came to prominence in later years. This balance would make Heublein an even sounder organization, less susceptible to the vicissitudes of the marketplace.

In fiscal 1982, that ideal balance came very close to fruition. Sales were 59 percent beverages, 41 percent foods. Profits were even closer—56 percent beverages, 44 percent foods. One of the great goals of Heublein management was all but achieved.

REVENUES



OPERATING PROFITS



And yet, Heublein is and always has been far more than the sum of its products. Heublein is an idea—an inspired idea born in 1875 in the minds of Gilbert and Louis Heublein, owners of a small business on a side street in Hartford, Connecticut.

The idea of the Brothers Heublein was simple: that a company could grow and prosper by offering its customers the finest of interesting and unusual food and drink, products of quality and value, enhanced by the magic of marketing.

A lot has happened to Heublein since its founding more than a century ago. Some brand names were added to the organization that have become household names throughout the world, such as A.1. Steak Sauce in 1906, Smirnoff Vodka in 1939, Beaulieu and Inglenook Wines in 1969, Kentucky Fried Chicken in 1971. As the company's product line expanded and it reached out to world markets, Heublein became a great and powerful force in the consumer goods industry, with diverse products distributed in diverse ways in the U.S. and overseas.

But the essence of Heublein remains the same: It is a company that will settle for nothing less than excellence in its products, and a company that knows how to convey that excellence to its ultimate customers, the discriminating public of America and the world.

After 107 years, the Heublein idea is as fresh as the morning. Now, as a major part of a multinational industrial giant, its story is just beginning.



MADE IN FRANCE
BOTTLED BY CHATEAU
1840-1900

THE SPECIAL RESERVE
No. 60
Smirnoff de France
SPECIAL RESERVE VODKA
DISTILLED FROM GRAIN
MADE BY THE HOUSE OF SMIRNOFF

80 PRO
POP

POP

VODKA

& White

Black & White
BUCHANAN'S
SCOTCH WHISKY

IMPORTED

HARVEYS

BRISTOL CREAM

Inglenook
Vineyard

1980
A FINE VINEYARD WINE

Inglenook

IMPORTED

BOTTLED



Smirnoff
80 PROOF

HEUBLEIN

THE LIQUORS
IN IT

HEUBLEIN

PIÑA COLADA

IMPORTED

BLACK
VELVET

BLENDED CANADIAN WHISKY
FORTY EIGHT

JOSE
CUERVO

IMPORTED

TEQUILA CUERVO
TEQUILA JALISCO

Tequila
Cuervo Esp

YUKON
JACK
100 PROOF

IMPORTED

100 PROOF
YUKON JACK
CANADIAN LIQUOR
MADE WITH
BLENDED CANADIAN WHISKY

The Black Sheep of Canada

IMPORTED AND BOTTLED BY
HARTFORD, CONN. - SOLE AGENT

NAPA VALLEY
RIESELING

Singlemensch

VINTAGE
1980
ESTATE BOTTLED

BLAUFOX
NAPA VALLEY
CHARDONNAY

FINANCE AND ADMINISTRATION

Corporate Finance and Administration includes six corporate staff operations — Corporate Affairs, Finance, Human Resources, Legal, Planning and Research, and Public Affairs. Again in fiscal 1982, these departments worked together and with the operating groups to make substantial contributions to the strengths and the successes of the company. Here are some highlights.



GWAIN H. GILLESPIE
Senior Vice President
Finance and Administration

Financial Management

Heublein was able to reduce outstanding borrowings and still make aggressive investments in both marketing and capital programs. The company again enjoyed a strong positive cash flow, which stems partially from the cash-and-carry nature of most of Heublein's businesses. With this cash flow and excellent working capital management, Heublein achieved:

- A return on equity of 17.6 percent, almost a full percentage point over fiscal 1981.
- A reduction of debt to total capital to 28 percent.
- Reduction of the ratio of inventories and receivables to sales to 23 percent, well below the level of the prior year.

Foreign exchange problems plagued most U.S. corporations over the year as the dollar strengthened. While Heublein was also affected, the company was able to successfully manage the situation.

In a generally difficult economic environment, some factors were favorable. Commodity prices were lower than expected in almost every area, including corn, from which Heublein's distilled spirits are made, poultry, flour and sugar. Also, the absence of a minimum wage increase helped keep domestic KFC costs and prices in line.

Because of the company's growing strengths, Moody's increased Heublein's commercial paper rating to P-1, its highest rating, and Standard & Poors continued to rate Heublein A-1.

Heublein invested more than \$110 million in advertising during the year, a 13 percent increase over the previous year, and invested more than \$80 million in capital programs.

Since these programs were financed internally, the company avoided both short and long-term borrowing. In fact, Heublein was able to retire \$12 million of its convertible debentures at a substantial discount, which resulted in a \$2.5 million gain in the first quarter.

In June, just before the end of the fiscal year, Heublein executed a new revolving credit agreement with 11 major banks, totalling \$150 million, at exceptionally favorable terms.

Again in fiscal 1982, Heublein raised its dividend to shareholders, as it has in each of the 22 years since it became a public company. And the company ended the fiscal year with the best cash position in its history.

Minority Relations

Recognizing that minorities are a growing and increasingly prosperous market for its products, Heublein launched a major expansion of its minority business programs in March. With the cooperation of Operation PUSH (People United to Serve Humanity), a Chicago-based religious and human rights group, Heublein set forth 10 specific plans to increase its business relationship with minority firms and individuals.

The agreement calls for increased participation by blacks in the Kentucky Fried Chicken franchising system, more use of black-owned banks, insurance companies, advertising agencies and other suppliers, and various other measures — all of which are extensions of Heublein's existing programs.

During the year, the company continued to register impressive gains in its minority and female management work force. Minorities now represent more than 25 percent of the management work force, and females nearly 28 percent.

Other Highlights

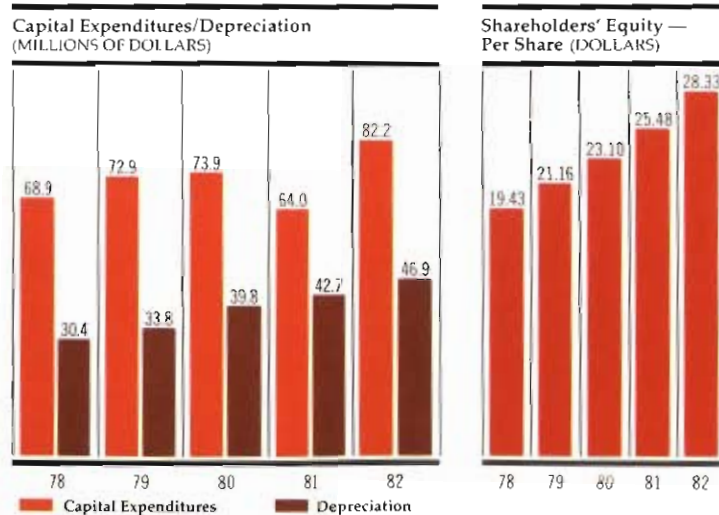
Among other significant accomplishments of the year:

- Legal Operations expanded its legal education program for employees, and established guidelines to insure that the company's decentralized legal organizations all operate under uniform policies and procedures.
- Marketing Research stepped up its consumer studies overseas, in addition to U.S. projects.
- Strategic Planning explored numerous alternatives for meeting the challenging new growth and profitability objectives set by management in 1982. One key step was the definition of the strategic role for each group that would serve to maximize company performance.
- In the area of government affairs, fiscal 1982 was the most successful fund-raising year for the seven-year-old Heublein Employees Political Participation Committee. A total of \$22,458 was donated by management employees, substantially more than in past HEPPC campaigns.
- The company increased its contributions to the Heublein Foundation, Inc. by 25 percent to \$1,250,000. The Foundation supports a variety of socially beneficial programs, principally in communities where the company has major facilities and concentrations of employees. Donations are given in the areas of education; health and welfare; and culture and art, with special attention to the education of minorities, problems of the inner cities, and education to combat alcohol abuse.

Heublein also contributes directly to the alcoholism prevention programs of several organizations and to research by noted universities.

John Moran Retires

The end of the fiscal year saw the retirement of John J. Moran, corporate vice president and assistant to the chairman. Mr. Moran, who joined the company in 1959 as controller, had longer service than any other senior executive. During his career he was treasurer, vice president of financial resources, vice president and treasurer, vice president of human resources, and vice president — group executive of the Grocery Products Group. He initiated the company's minority banking program in 1975, and he organized and was president of the Heublein Foundation.



Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. The Company's investments in affiliated companies (not majority-owned) are accounted for on the equity basis, and the Company's operating results include its share of their net income. All significant intercompany transactions are eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by specific lots, the first-in, first-out (FIFO) method and the last-in, first-out (LIFO) method for certain domestic inventories.

Bulk whiskey and wine in storage for aging over a number of years are included in current assets in accordance with industry practice.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation and amortization are computed generally by the straight-line method over the estimated useful lives of the respective assets or the terms of the related leases. On sale or retirement, the asset cost and related accumulated depreciation are removed from the accounts, and any related gain or loss is reflected in income.

Cost in Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises

Cost in excess of net assets of purchased businesses is being amortized on a straight-line basis over periods ranging from 5 to 40 years, except for \$4,016,000 relating to an acquisition prior to November 1, 1970 which is not being amortized as, in the opinion of management, there has been no diminution in value.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided on a straight-line basis over periods ranging principally from 5 to 40 years.

Franchise and License Fees

Initial franchise fees are recorded as income on the date the store is opened by the franchisee. Monthly fees from franchisees and licensees are accrued as earned.

Taxes

Deferred income taxes result from timing differences between tax and financial recognition of income and expense. The principal items causing timing differences are provisions for losses on disposition of discontinued operations, accelerated depreciation and tax benefit leases.

The investment tax credit is deducted from federal income tax expense in the year in which the related asset is placed in service.

United States and Canadian excise taxes constitute a lien on in-bond inventories. Since these taxes are not payable until withdrawal from bond, excise taxes have not been accrued with respect to such inventories in accordance with industry practice.

Pension Plans

The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by union pension plans. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension costs charged to current earnings include charges for current service and amortization of prior service costs over 30 years. The Company's policy is to fund amounts accrued.

Earnings Per Share

Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding during each year. Fully diluted earnings per share also include the effects of the remaining dilutive stock options and convertible securities.



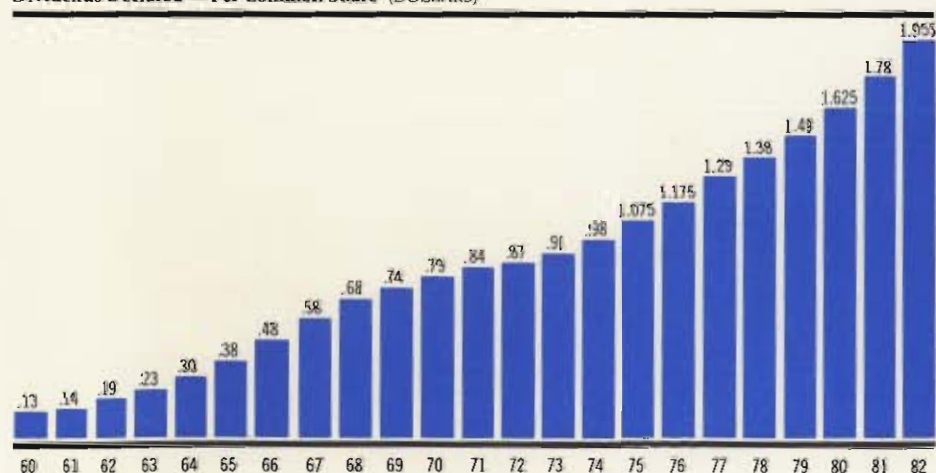
Consolidated Statement of Income

(In thousands except per share data)	Year ended June 30,		
	1982	1981*	1980*
Revenues:			
Net sales	\$2,062,223	\$1,984,396	\$1,865,474
Franchise and license fees	75,180	65,725	56,405
	<u>2,137,403</u>	<u>2,050,121</u>	<u>1,921,879</u>
Costs and expenses:			
Cost of sales	1,397,109	1,381,606	1,325,293
Selling, advertising, general and administrative expenses	489,099	444,215	401,384
	<u>1,886,208</u>	<u>1,825,821</u>	<u>1,726,677</u>
Operating profit	251,195	224,300	195,202
Other deductions:			
Interest expense:			
Long-term debt	12,812	12,636	14,315
Other	20,402	15,945	11,046
Corporate and miscellaneous — net	20,251	27,683	22,933
	<u>53,465</u>	<u>56,264</u>	<u>48,294</u>
Income before income taxes	197,730	168,036	146,908
Income taxes	94,910	79,822	69,038
Net income	<u>\$ 102,820</u>	<u>\$ 88,214</u>	<u>\$ 77,870</u>
Earnings per share:			
Primary	<u>\$4.72</u>	<u>\$4.08</u>	<u>\$3.64</u>
Fully diluted	<u>\$4.53</u>	<u>\$3.92</u>	<u>\$3.50</u>

*Restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.

See accompanying notes and summary of accounting policies.

Dividends Declared — Per Common Share (DOLLARS)



Consolidated Balance Sheet

(In thousands)	June 30,	
	1982	1981*
ASSETS		
Current assets:		
Cash and temporary investments	\$ 84,479	\$ 74,761
Accounts and notes receivable	197,055	199,497
Inventories:		
Finished products	95,528	97,646
Products in process	3,655	7,157
Bulk whiskey and wine	165,410	165,433
Raw materials	26,427	34,133
Total inventories	291,020	304,369
Deferred income tax benefits	17,188	20,928
Prepaid expenses	9,458	11,947
Total current assets	599,200	611,502
 Investments in and advances to affiliated companies	 18,496	 20,978
 Property, plant and equipment — net	 433,226	 388,594
 Other assets:		
Cost in excess of net assets of purchased businesses	55,018	53,070
Trademarks, contracts and franchises	13,424	13,645
Other	56,744	35,063
Total other assets	125,186	101,778
	<u>\$1,176,108</u>	<u>\$1,122,852</u>

	June 30,	
	1982	1981*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 21,319	\$ 34,204
Current portion of long-term debt	4,259	4,305
Current obligations under capital leases	2,713	2,616
Accounts payable	85,433	77,491
Accrued expenses	96,036	94,417
Taxes:		
Federal, state and foreign income taxes	42,739	44,942
Excise taxes	45,919	50,877
Other taxes	8,673	8,628
Dividends payable	10,857	9,794
Total current liabilities	317,948	327,274
Long-term debt due after one year	186,856	199,649
Capital lease obligations	24,400	24,262
Other long-term liabilities and deferred income taxes	23,117	15,536
Minority interest in foreign subsidiaries	7,753	6,723
Shareholders' equity:		
Preferred stock:		
Series A	801	866
Series B	207	220
Common stock	10,855	10,760
Additional paid-in capital	158,447	152,606
Retained earnings	445,724	384,956
Total shareholders' equity	616,034	549,408
	<u>\$1,176,108</u>	<u>\$1,122,852</u>

*Restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.

See accompanying notes and summary of accounting policies.

Consolidated Statement of Additional Paid-In Capital

(In thousands)	Year ended June 30,		
	1982	1981	1980
Balance at beginning of year	\$152,606	\$147,578	\$144,739
Excess of option price over stated value of common stock issued on exercise of options	3,724	3,089	1,268
Excess of fair market value over stated value of restricted stock issued	1,180	1,511	1,476
Excess of stated value of preferred stock converted over stated value of common stock issued	6	3	3
Tax benefit from exercise of options issued under stock option plans	931	425	92
Balance at end of year	<u>\$158,447</u>	<u>\$152,606</u>	<u>\$147,578</u>

Consolidated Statement of Retained Earnings

(In thousands except per share data)	Year ended June 30,		
	1982	1981*	1980*
Balance at beginning of year	\$384,956	\$334,778	\$291,800
Net income	102,820	88,214	77,870
Dividends declared on common stock — \$1.955 per share (\$1.78 in 1981 and \$1.625 in 1980)	(42,052)	(38,036)	(34,566)
Cancellation of treasury shares	—	—	(326)
Balance at end of year	<u>\$445,724</u>	<u>\$384,956</u>	<u>\$334,778</u>

*Restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.

See accompanying notes and summary of accounting policies.

Dividends Paid & Stock Price Ranges

			Stock Price Range*	
	Quarter	Dividends Paid	High	Low
1982	4	\$.50	\$41¾	\$35
	3	.50	40¼	29⅞
	2	.455	38	27⅝
	1	.455	32¼	26⅜
1981	4	\$.455	\$35¼	\$29¾
	3	.455	34	27½
	2	.415	30½	24¾
	1	.415	34½	29⅝

*New York Stock Exchange (symbol HBL).
Holders of record at July 31, 1982 — 20,361.



Consolidated Statement of Changes in Financial Position

(In thousands)	Year ended June 30,		
	1982	1981*	1980*
FUNDS FROM OPERATIONS			
Net income	\$102,820	\$ 88,214	\$ 77,870
Charges (credits) not requiring funds:			
Depreciation and amortization	46,922	42,722	39,806
Deferred income taxes	8,565	2,857	1,608
Equity in unremitted earnings of unconsolidated affiliates	(1,719)	(4,428)	(3,559)
Minority interest in earnings of foreign subsidiaries	1,030	1,376	228
	<u>157,618</u>	<u>130,741</u>	<u>115,953</u>
Changes in working capital, excluding cash and temporary investments and financing activities	25,528	11,014	(35,909)
Total funds provided from operations	183,146	141,755	80,044
FUNDS FROM OTHER SOURCES			
Book value of assets sold	6,661	8,036	10,402
Decrease in investments in and advances to affiliated companies	4,201	3,013	3,751
Increase in common stock and additional paid-in capital resulting from exercise of stock options and issuance of restricted stock	5,929	5,112	2,889
Other — net	772	104	154
Total funds provided from other sources	17,563	16,265	17,196
Total funds provided, before financing activities	200,709	158,020	97,240
FINANCING ACTIVITIES			
Decrease in long-term debt	(12,793)	(1,657)	(7,070)
Increase (decrease) in notes payable, current portion of long-term debt and current obligations under capital leases	(12,834)	4,476	12,553
Total funds provided (used) by financing activities	(25,627)	2,819	5,483
USE OF FUNDS			
Additions to property, plant and equipment	94,990	63,984	73,854
Dividends declared	42,052	38,036	34,566
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	5,565	12,889	357
Increase in other assets	21,911	1,534	8,384
Decrease in other long-term liabilities and deferred income taxes	846	7,519	520
Total use of funds	165,364	123,962	117,681
INCREASE (DECREASE) IN CASH AND TEMPORARY INVESTMENTS	\$ 9,718	\$ 36,877	\$ (14,958)

*Reclassified to conform to current year format and restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.

See accompanying notes and summary of accounting policies.

Taxes

In 1982, the Company invested \$16,447,000 in tax benefit leases under the "safe harbor" leasing provisions of the Economic Recovery Tax Act of 1981. The investment is reduced as tax savings are realized and the remaining unrecovered cost is amortized over the period the Company has the use of the tax benefits. The current provision for U.S. federal income taxes gives effect to tax benefits in 1982 of \$10,619,000 from tax lease transactions with an offsetting provision for deferred taxes in accordance with the Financial Accounting Standards Board Exposure Draft of April 13, 1982. The effect on 1982 net income was not significant.

The components of income tax expense for fiscal 1982, 1981 and 1980 follow:

	1982	1981	1980
	(In thousands)		
Current:			
Federal	\$ 52,788	\$ 54,037	\$ 51,373
State	13,280	11,391	9,078
Foreign	9,730	11,537	6,979
	<u>75,798</u>	<u>76,965</u>	<u>67,430</u>
Deferred:			
Federal	18,864	2,450	1,985
Foreign	248	407	(377)
	<u>19,112</u>	<u>2,857</u>	<u>1,608</u>
Total income tax expense	<u>\$ 94,910</u>	<u>\$ 79,822</u>	<u>\$ 69,038</u>

The provision for deferred income taxes includes tax effects of the following:

	1982	1981	1980
	(In thousands)		
Excess of tax over book depreciation	\$ 3,363	\$ 1,835	\$ 2,077
Losses from discontinued operations provided for in prior periods	1,884	2,104	791
Tax benefit leases	10,619	—	—
Other items	3,246	(1,082)	(1,260)
Provision for deferred income taxes	<u>\$ 19,112</u>	<u>\$ 2,857</u>	<u>\$ 1,608</u>

The components of income before income taxes follow:

	1982	1981	1980
	(In thousands)		
Domestic	\$175,755	\$145,917	\$130,916
Foreign	21,975	22,119	15,992
Total	<u>\$197,730</u>	<u>\$168,036</u>	<u>\$146,908</u>

The consolidated effective income tax rate was 48% for 1982, 47.5% for 1981 and 47% for 1980. Significant items affecting these rates were 3.7% in 1982, 3.7% in 1981 and 3.4% in 1980 due to state and local taxes, net of federal income tax benefit and (1.3)%, (1.1)% and (2.2)%, respectively, due to investment tax credits.

No provision for federal income taxes has been made for the undistributed earnings of foreign subsidiaries as it is management's intent to reinvest substantially all earnings of foreign subsidiaries abroad. If such earnings were distributed, income tax credits would be available to substantially reduce any resulting federal income tax liability.

Net sales include excise taxes of \$440,321,000 in 1982, \$458,713,000 in 1981 and \$491,829,000 in 1980.

Temporary Investments and Inventories Temporary investments, consisting principally of commercial paper and United States Government obligations, amounted to \$73,503,000 and \$68,475,000 at June 30, 1982 and 1981, respectively. These investments are carried at cost, which approximates market.

Certain inventories in the Company's domestic beverage and food operations are valued by the LIFO method. Had these inventories been valued using the specific lot and FIFO methods rather than the LIFO method, inventories would have been \$23,241,000 and \$16,759,000 higher than those stated at June 30, 1982 and 1981, respectively.

Property, Plant and Equipment Property, plant and equipment are summarized by major classification as follows:

	June 30,	
	1982	1981
	(In thousands)	
Land and land improvements	\$ 73,004	\$ 64,176
Buildings	145,994	128,079
Machinery and equipment	287,325	261,542
Leasehold improvements	100,589	87,341
Capital leases (principally buildings)	37,613	35,552
Construction in progress	37,518	25,056
	682,043	601,746
Less accumulated depreciation and amortization	248,817	213,152
	<u>\$433,226</u>	<u>\$388,594</u>

Accumulated amortization pertaining to capital leases, included above, amounted to \$14,620,000 and \$13,524,000 at June 30, 1982 and 1981, respectively.

Financing Arrangements and Long-Term Debt

At June 30, 1982 and 1981, the Company had no domestic short-term borrowings; however, foreign subsidiaries' short-term debt aggregated \$21,319,000 and \$34,204,000, respectively. The Company had available unsecured lines of credit from several domestic banks totalling \$64,775,000 and \$53,000,000, and from foreign banks totalling \$46,806,000 and \$38,763,000 at June 30, 1982 and 1981, respectively.

The Company is expected to maintain sufficient average bank balances to compensate certain financial institutions that provide it with informal domestic lines of credit. Such balances are not legally restricted as to utilization or withdrawal.

The Company entered into a revolving credit agreement on June 15, 1982 with a group of banks for the borrowing of up to \$150,000,000 until September 14, 1985, decreasing \$7,500,000 quarterly thereafter until June 15, 1990. There were no borrowings under this agreement at June 30, 1982.

Long-term debt due after one year consists of the following:

	June 30,	
	1982	1981
	(In thousands)	
4½% convertible subordinated debentures due May 15, 1997	\$ 87,999	\$100,000
8¾% Notes due February 15, 1985	90,000	90,000
Mortgage notes payable and other	8,857	9,649
	<u>\$186,856</u>	<u>\$199,649</u>

Corporate and miscellaneous — net for the year ended June 30, 1982 includes a gain of \$4,727,000 as a result of acquiring \$12,000,000 in principal amount of the 4½% convertible subordinated debentures during the first quarter to meet future sinking fund requirements. Debentures totalling \$7,000,000 in principal amount were acquired for cash while the remaining \$5,000,000 in principal amount were exchanged for shares of common stock acquired by the Company. The effect of the gain was to increase net income by \$2,458,000 or \$.11 per share.

The 4½% subordinated debentures are convertible into common stock at approximately \$69.50 per share (1,266,130 shares) and are subject to redemption through annual sinking fund payments beginning in 1985 of not less than \$6,000,000 nor more than \$12,000,000.

The 8¾% Notes may not be redeemed before February 15, 1983. On or after that date, the Notes may be redeemed at the option of the Company in whole or in part at their principal amount, plus accrued interest. The most restrictive term of all borrowing agreements is under the 8¾% Notes which limits the payment of cash dividends. Consolidated retained earnings not so restricted at June 30, 1982 amounted to approximately \$363,000,000.

Aggregate maturities of long-term debt in years 1983 through 1987 are: \$4,259,000, \$2,851,000, \$97,073,000, \$6,341,000 and \$6,362,000.

Capital Stock

Changes in shares of capital stock during fiscal 1982, 1981 and 1980 are summarized below:

	Common	Preferred	
		Series A convertible non-dividend	Series B convertible non-dividend
Shares authorized	30,000,000	5,000,000	
Stated value per share	<u>\$.50</u>	<u>\$10</u>	
Balance at July 1, 1979	21,248,723	151,660	25,435
Exercise of stock options	51,934	—	—
Conversions of preferred stock	49	(131)	(169)
Redemptions	—	(9,968)	(927)
Cancellation of treasury shares	(7,650)	—	—
Awards of restricted stock	53,044	—	—
Balance at June 30, 1980	21,346,100	141,561	24,339
Exercise of stock options	126,286	—	—
Conversions of preferred stock	56	(82)	(169)
Redemptions	—	(7,562)	(2,147)
Awards of restricted stock	46,986	—	—
Balance at June 30, 1981	21,519,428	133,917	22,023
Exercise of stock options	152,551	—	—
Conversions of preferred stock	138	(232)	(347)
Redemptions	—	(9,517)	(927)
Awards of restricted stock	38,751	—	—
Balance at June 30, 1982	<u>21,710,868</u>	<u>124,168</u>	<u>20,749</u>

Each Series A preferred share is convertible into .10 share of common stock and is also redeemable in whole or in part at the option of the holder. Redemptions amounted to \$62,000 in 1982, \$60,000 in 1981 and \$71,000 in 1980. Partial redemptions (aggregating \$440,000 at June 30, 1982) do not reduce the number of shares outstanding. Each Series B preferred share is convertible into .2974 share of common stock and is also redeemable. The Company has the option to redeem both classes in whole or in part for \$10 per share, less any amounts previously paid in partial redemption.

Authorized capital stock also includes 500,000 shares of 5% preferred stock, par value \$100 per share, and 200,500 shares of 5% convertible preferred stock, par value \$100 per share, none of which were outstanding during 1982, 1981 or 1980.

Shares of common stock were reserved as follows:

	June 30,		
	1982	1981	1980
Conversion of outstanding:			
4½% convertible subordinated debentures	1,266,130	1,438,800	1,438,800
Series A convertible preferred stock	7,717	8,368	8,982
Series B convertible preferred stock	6,171	6,550	7,238
Stock options and restricted stock	1,838,425	2,029,643	2,202,915
	<u>3,118,443</u>	<u>3,483,361</u>	<u>3,657,935</u>

Stock Option and Long-Term Growth Incentive Plans

At June 30, 1982, 221 employees held options to purchase shares of common stock under the 1971 and 1974 Stock Option Plans. Options are granted at prices not less than fair market value at the date of grant and have terms of 5 or 10 years. They generally are exercisable one-third each year, cumulatively, beginning two years from date of grant. Options outstanding at June 30, 1982 are exercisable at various dates from September, 1984 to April, 1992 at prices ranging from \$23.69 to \$48.56. There have been no charges to operations in connection with options granted to date.

Changes in options outstanding were:	Shares
Outstanding at June 30, 1981	922,135
Granted at \$40.38	3,000
Exercised at \$23.69 to \$27.25	(152,551)
Cancelled	(11,230)
Outstanding at June 30, 1982	<u>761,354</u>

There were 126,286 shares exercised during 1981 and 51,934 shares exercised during 1980 at prices ranging from \$23.69 to \$26.44. Options exercisable at June 30, 1982 were 758,354. There were 1,077,071 options available for future grant at June 30, 1982.

The 1974 Plan was amended to authorize the granting of Restricted Stock and Performance Units, as well as the previously authorized stock options and stock appreciation rights, without increasing the maximum number of shares issuable under the Plan. At that time, the 1974 Plan was redesignated the Long-Term Growth Incentive Plan.

With certain exceptions, Restricted Stock awards are subject to specified periods of continuous employment (presently three years). The market value of awarded shares is amortized to expense over the restriction period. The expense charged to operations amounted to \$1,800,000 in 1982, \$1,223,000 in 1981 and \$551,000 in 1980.

At the time of grant of Performance Units, an award period is established during which certain goals must be met to enable the participants to receive full or partial payment. The value of a Unit will equal the fair market value of a share of common stock at the expiration of the award period. The value of Performance Units awarded is charged to operations over the award period (\$1,500,000 in 1982, \$770,000 in 1981 and \$399,000 in 1980).

Pending Legal Proceedings

The Company and its subsidiaries are defendants in various litigation matters in which aggregate alleged damages are substantial. Based upon the advice of counsel, management believes the Company and its subsidiaries have adequate defenses and that no material liability will result from such litigation.

Leases

The Company leases land, buildings and equipment. Many of these leases contain renewal options and some include escalation clauses. Future minimum lease payments under noncancellable leases as of June 30, 1982 are summarized as follows:

	Capital leases	Operating leases
	(In thousands)	
Fiscal year ending June 30:		
1983	\$ 6,118	\$11,797
1984	5,477	7,417
1985	4,760	5,678
1986	4,241	4,913
1987	4,090	4,346
Thereafter	25,503	20,043
Total minimum lease payments	50,189	<u>\$54,194</u>
Less amount representing interest	23,076	
Net obligations under capital leases	<u>\$27,113</u>	

Rental expense under operating leases, net of minor sublease income, was \$22,412,000 in 1982, \$19,139,000 in 1981 and \$14,878,000 in 1980 including contingent rental expense of \$1,936,000, \$1,790,000 and \$1,372,000, respectively.

**Supplementary Income
Statement Information**

	1982	1981	1980
		(In thousands)	
Federal, state and foreign excise taxes	\$440,820	\$459,317	\$492,329
Advertising, merchandising and sales promotion	\$205,121	\$187,317	\$168,913
Maintenance and repairs	\$ 24,045	\$ 23,971	\$ 26,196

Business Segments

The Company operates worldwide principally in four business segments: production and marketing of distilled spirits and prepared cocktails (Spirits); production and/or marketing of wines and brandies (Wines); production and sale of specialty food products (Grocery) and operating and franchising principally Kentucky Fried Chicken restaurants (Restaurants). The business segment information for each of the three years ended June 30 is presented below:

	1982	1981	1980
		(In thousands)	
Revenues:			
Spirits	\$ 877,041	\$ 876,546	\$ 883,419
Wines	387,130	378,497	386,938
Grocery	173,545	153,552	131,511
Restaurants	699,687	641,526	520,011
Consolidated	\$2,137,403	\$2,050,121	\$1,921,879
Operating profit:			
Spirits	\$ 114,696	\$ 107,078	\$ 93,341
Wines	25,965	26,551	32,655
Grocery	26,447	21,545	17,904
Restaurants	84,087	69,126	51,302
Consolidated	251,195	224,300	195,202
Interest expense	33,214	28,581	25,361
Corporate and miscellaneous — net	20,251	27,683	22,933
Income before income taxes	\$ 197,730	\$ 168,036	\$ 146,908
Identifiable assets:			
Spirits	\$ 312,322	\$ 318,695	\$ 320,379
Wines	310,984	318,137	308,445
Grocery	58,389	61,601	63,219
Restaurants	353,882	316,519	276,682
Corporate	140,531	107,900	80,067
Consolidated	\$1,176,108	\$1,122,852	\$1,048,792
Capital expenditures:			
Spirits	\$ 9,031	\$ 4,386	\$ 5,825
Wines	7,862	7,148	14,885
Grocery	3,121	3,514	3,087
Restaurants	61,526	48,686	49,721
Corporate	630	250	336
Consolidated	\$ 82,170	\$ 63,984	\$ 73,854
Depreciation and amortization:			
Spirits	\$ 6,463	\$ 6,422	\$ 6,393
Wines	8,258	8,429	8,910
Grocery	3,365	3,143	3,644
Restaurants	27,389	23,546	19,616
Corporate	1,447	1,182	1,243
Consolidated	\$ 46,922	\$ 42,722	\$ 39,806

Geographic area information is presented below:

	1982	1981	1980
		(In thousands)	
Revenues:			
United States	\$1,691,119	\$1,602,543	\$1,550,931
Brazil	129,680	148,171	136,447
Remaining foreign geographic areas	316,604	299,407	234,501
Consolidated	<u>\$2,137,403</u>	<u>\$2,050,121</u>	<u>\$1,921,879</u>
Operating profit:			
United States	\$ 187,585	\$ 168,081	\$ 157,880
Brazil	19,398	20,494	12,733
Remaining foreign geographic areas	44,212	35,725	24,589
Consolidated	<u>\$ 251,195</u>	<u>\$ 224,300</u>	<u>\$ 195,202</u>
Identifiable assets:			
United States:			
Operating assets	\$ 782,520	\$ 752,504	\$ 739,678
Corporate	140,531	107,900	80,067
Brazil	100,899	119,388	95,529
Remaining foreign geographic areas	152,158	143,060	133,518
Consolidated	<u>\$1,176,108</u>	<u>\$1,122,852</u>	<u>\$1,048,792</u>

Intersegment, intergeographical and export transactions are not significant.

Operating profit of each segment is total revenue less operating expenses. Operating profit excludes interest expense, income taxes and Corporate and miscellaneous — net, which consists of the gain on debentures, interest income, equity in earnings of unconsolidated affiliates, minority interest in earnings of foreign subsidiaries and miscellaneous general expenses.

Corporate identifiable assets are principally cash and temporary investments, investments in and advances to affiliated companies and other assets.

Foreign exchange gains accounted for under Financial Accounting Standard No. 8, principally in Brazil, were \$5,270,000 in 1982, \$5,447,000 in 1981 and \$4,803,000 in 1980. These exchange gains in Brazil are more than offset by lower reported profits when translated into U.S. dollars.

Pension and Deferred Compensation Plans

As of the most recent valuation dates, the actuarial present values for the Company's various pension plans were:

	July 1,	
	1981	1980
	(In thousands)	
Actuarial present value of accumulated benefits:		
Vested	\$38,893	\$32,098
Non-vested	9,192	8,435
	<u>\$48,085</u>	<u>\$40,533</u>
Net assets available for benefits	<u>\$66,432</u>	<u>\$53,712</u>

The assumed rate of return used in determining the actuarial present value was 8% (7% in fiscal 1981). The actuarial benefits and available net assets exclude the Company's foreign pension plans and domestic multi-employer pension plans, whose present values are not determinable.

Pension expense, determined principally under the entry age normal actuarial cost method, amounted to \$9,680,000 in 1982, \$10,115,000 in 1981 and \$10,308,000 in 1980. Pension plan expense in 1982 was reduced by changes in certain pension plan assumptions (principally investment yield), offset by the effects of inflation and improved benefits.

Effective July 1, 1981, the Company amended the Deferred Compensation Plan to become the Savings and Investment Plan. Under this Plan, the Company will match employee contributions to a maximum of 6% of participants' compensation as defined in the Plan. Of the approximately 3,700 employees eligible to participate in the Savings and Investment Plan, over 3,000 were participating at June 30, 1982. The Company's contributions under these Plans for salaried employees amounted to \$4,086,000 in 1982, \$5,750,000 in 1981 and \$5,248,000 in 1980.

Subsequent Event

On July 29, 1982 the directors of the Company and R. J. Reynolds Industries, Inc. jointly agreed to a merger of the two companies in which R. J. Reynolds will acquire 100% of the Company for cash and securities. Under the terms of the agreement, R. J. Reynolds will acquire 11,350,000 shares of the Company's outstanding common stock (representing approximately 52% of the shares outstanding on June 30, 1982) and 4,000,000 newly issued shares at \$63 per share. On the effective date of the merger, the remaining outstanding shares will be acquired for fractions of R. J. Reynolds common stock and a new R. J. Reynolds preferred stock.

The agreement is subject to approvals by shareholders of both companies and certain regulatory agencies.

Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected unaudited quarterly financial data for the years ended June 30, 1982, 1981 and 1980 (in thousands except per share data):

	First quarter	Second quarter	Third quarter	Fourth quarter
1982				
Total revenues	\$509,591	\$587,455	\$493,207	\$547,150
Cost of sales	333,814	388,290	320,590	354,415
Net income	28,297	29,265	20,918	24,340
Earnings per share:				
Primary	\$1.30	\$1.35	\$.96	\$1.11
Fully diluted	\$1.25	\$1.29	\$.93	\$1.07
1981				
Total revenues	\$475,399	\$566,878	\$483,479	\$524,365
Cost of sales	318,202	385,284	324,610	353,510
Net income	23,039	26,431	17,859	20,885
Earnings per share:				
Primary	\$1.07	\$1.22	\$.83	\$.96
Fully diluted	\$1.02	\$1.17	\$.80	\$.93
1980				
Total revenues	\$454,127	\$535,182	\$444,553	\$488,017
Cost of sales	311,280	372,803	307,736	333,474
Net income	20,299	23,485	15,711	18,375
Earnings per share:				
Primary	\$.95	\$1.10	\$.73	\$.86
Fully diluted	\$.92	\$1.05	\$.71	\$.82

The first quarter of 1982 includes the gain on debentures acquisition increasing net income by \$2,458,000 or \$.11 per share. The fourth quarter of 1982 includes net income of \$1,543,000 or \$.07 per share attributable to prior quarters' royalties resulting from a new long-term agreement signed in the fourth quarter with International Distillers and Vintners of London.

Supplementary Information on the Effects of Changing Prices (Unaudited)

As required by Financial Accounting Standard No. 33, "Financial Reporting and Changing Prices", the Company is presenting supplementary information designed to represent the effect of inflation on its operations.

Certain amounts appearing in the primary financial statements (inventories, property, plant and equipment, cost of sales and depreciation and amortization expenses) have been restated to two bases: "historical cost/constant dollars" and "current costs". The constant dollars restatement, through the use of the Consumer Price Index for All Urban Consumers, adjusts transactions recorded in actual dollars at different times to dollars having the same general purchasing power. The restatement to current costs is intended to reflect changes in specific prices. The use of various indices measuring price changes for specific types of assets was the principal technique used in estimating current costs. These costs are meant to indicate the amount needed to replace existing inventories and production facilities at current prices.

Depreciation and amortization expenses are adjusted under both bases by restating the historical cost of property, plant and equipment to constant dollars and current costs for 1982. These restated costs become the base from which depreciation and amortization are calculated utilizing the same methods and asset lives used in the primary financial statements. Cost of sales is adjusted under both methods by restating the historical cost of inventories at the beginning and end of the year. No adjustment has been made for that portion of the Company's



cost of sales applicable to inventories valued using the LIFO method, since these costs already approximate average fiscal 1982 dollars.

In accordance with Standard No. 33, no adjustments to income tax expense reported in the primary financial statements have been made in determining net income in the restated income statements. This approach is consistent with present tax laws which do not allow deductions for inflation adjusted costs. As a result, the consolidated effective income tax rate rises from 48.0% on the historical cost basis to 61.7% on the constant dollars basis and to 63.5% on the current costs basis.

Net monetary liabilities were held during a period in which the purchasing power of the dollar declined. As a result, the Company experienced a gain, since those monetary liabilities will be paid with dollars having decreased purchasing power. It should be noted that this purchasing power gain on net monetary liabilities does not represent receipt of cash and should not be considered as providing funds for subsequent reinvestment in the Company.

Both general and specific inflation adjustments involve estimates, assumptions and subjective judgments which should be viewed only as an attempt to approximate the effects of inflation. Clearly, these amounts are experimental in nature and may not represent the actual impact of inflation on the Company.

Consolidated Statement of Income
Adjusted for General Inflation and Specific Prices
Year ended June 30, 1982
(In thousands except per share data)

	As reported in financial statements	Adjusted for general inflation (constant dollars)	Adjusted for specific prices (current costs)
Revenues	\$2,137,403	\$2,137,403	\$2,137,403
Cost of sales*	1,397,109	1,428,138	1,437,287
Selling, advertising, general and administrative expenses*	489,099	502,060	497,304
Other deductions	53,465	53,465	53,465
Income before income taxes	197,730	153,740	149,347
Income taxes	94,910	94,910	94,910
Net income	<u>\$ 102,820</u>	58,830	54,437
Gain on net monetary items		14,884	14,884
Net income plus gain on net monetary items		<u>\$ 73,714</u>	69,321
Increase in specific prices**			35,800
Less effect of increase in general price level			49,089
Amount of increase in specific prices over (under) increase in the general price level			(13,289)
Net change in shareholders' equity	<u>\$ 102,820</u>	<u>\$ 73,714</u>	<u>\$ 56,032</u>
Per common share:			
Net income	<u>\$4.72</u>	<u>\$2.70</u>	<u>\$2.50</u>
Net income plus gain on net monetary items		<u>\$3.38</u>	<u>\$3.18</u>
Net assets at year-end	<u>\$ 616,034</u>	<u>\$ 837,026</u>	<u>\$ 820,204</u>

*The adjustment to depreciation and amortization increased cost of sales by \$9,409 and \$8,559 for constant dollars and current costs, respectively. Selling, advertising, general and administrative expenses were increased by \$12,961 for constant dollars and by \$8,205 for current costs, for a total depreciation and amortization effect of \$22,370 and \$16,764 under each basis.

**At June 30, 1982 the current costs of inventory and property, plant and equipment, net of accumulated depreciation, were \$325,195 and \$597,453, respectively.

Five Year Comparison of Selected Financial Data
Adjusted for the Effects of Changing Prices*

(Dollars in thousands except per share data)

	Year ended June 30,				
	1982	1981	1980	1979	1978
Revenues	\$2,137,403	\$2,227,946	\$2,330,227	\$2,430,321	\$2,434,486
Historical cost information adjusted for general inflation (constant dollars):					
Net income	58,830	53,378	56,465		
Net income per common share	2.70	2.47	2.64		
Net assets at year-end	837,026	831,715	813,436		
Historical cost information adjusted for specific prices (current costs):					
Net income	54,437	48,412	45,974		
Net income per common share	2.50	2.24	2.15		
Amount of increase in specific prices over (under) increase in the general price level	(13,289)	2,844	(5,937)		
Net assets at year-end	820,204	841,309	832,174		
Other information:					
Gain from decline in purchasing power of net amounts owed	14,884	23,508	37,638		
Dividends declared per common share ...	1.96	1.93	1.97	2.05	2.07
Market price per common share at year-end	\$ 37.25	\$ 34.97	\$ 36.83	\$ 35.89	\$ 40.57
Average consumer price index	281.9	259.4	232.5	205.2	187.6

*Amounts shown are stated in average fiscal 1982 dollars.

Report of Certified
Public Accountants

ARTHUR YOUNG

ARTHUR YOUNG & COMPANY
277 PARK AVENUE
NEW YORK, NEW YORK 10172

The Board of Directors and Shareholders
Heublein, Inc.

We have examined the accompanying consolidated balance sheets of Heublein, Inc. at June 30, 1982 and 1981, and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for each of the three years in the period ended June 30, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1982 and 1981, and the consolidated results of operations and changes in financial position for each of the three years in the period ended June 30, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young Company

July 22, 1982, except as to the Subsequent Event
note as to which the date is July 29, 1982



Liquidity and Capital Resources

Working capital has decreased slightly to \$281,252,000 from \$284,228,000 at June 30, 1981. Cash and temporary investment increases of \$9,718,000, along with reductions in notes payable of \$12,885,000, have been offset by decreases in inventory balances of \$13,349,000, increases in accounts payable of \$7,942,000 and other miscellaneous changes. The working capital ratio of 1.9 remains unchanged from prior year. Cash and temporary investments have climbed to \$84,479,000 from \$74,761,000 at June 30, 1981, with over \$73,000,000 invested in interest-bearing instruments yielding nearly 14%. In fiscal 1982, the Company earned over \$11,000,000 in interest income as compared to \$6,000,000 in fiscal 1981.

Funds provided from operations in 1982 of \$183,146,000 have financed \$41,010,000 in dividend payments, \$94,990,000 in additions to property, plant and equipment and \$25,627,000 reductions in both short and long-term financing, including the acquisition of convertible debentures. The funds provided from operations increased 29% over prior year's \$141,755,000 and are more than double the amount provided from fiscal 1980. Positive cash flows have been generated in both fiscal 1982 and 1981.

A new revolving credit agreement was signed in June, 1982 increasing the Company's borrowing capabilities to \$150,000,000 from the prior limitation of \$75,000,000. No debt has been incurred under this agreement. There were no domestic short-term borrowings outstanding at June 30, 1982. The Company's year-end ratio of debt to debt plus shareholders' equity improved to 28% from 30% at June 30, 1981.

Capital expenditures in fiscal 1982 of over \$82,000,000 set record levels, exceeding prior year's spending by \$18,000,000. Additionally, the Company invested nearly \$13,000,000 for acquisition of KFC retail outlets in Louisville and Houston. In fiscal 1983, the Company expects to spend \$110,000,000 for capital expenditures, primarily for new Kentucky Fried Chicken stores worldwide and additional remodelings. The Company anticipates these activities will be financed from internally generated funds.

Changing Prices and the Effects of Inflation

For an explanation of the continuing effects of inflationary costs and changes in the purchasing power of the dollar, please refer to the "Supplementary Information on the Effects of Changing Prices" note discussed on pages 40 through 42.

Results of Operations

The following discussion is presented to explain certain comparative changes shown in the Consolidated Statement of Income. The Company's accounting policies, consolidated financial statements, notes to consolidated financial statements and shareholders' and operations letters should be read in conjunction with this discussion since they are all essential in evaluating the Company's results of operations.

Fiscal year increase (decrease) in the components of earnings:	Increase (Decrease)			
	1982 compared to 1981		1981 compared to 1980	
	(Dollars in thousands)			
Revenues	\$ 87,282	4.3%	\$128,242	6.7%
Cost of sales	15,503	1.1	56,313	4.2
Selling, advertising, general and administrative expenses	44,884	10.1	42,831	10.7
Interest expense	4,633	16.2	3,220	12.7
Corporate and miscellaneous — net	(7,432)	(26.8)	4,750	20.7
Income taxes	15,088	18.9	10,784	15.6

Revenues

Revenues increased 4% over prior year primarily due to continuing strong performances by the Food businesses, which increased 10% over prior year. Management estimates that consolidated sales volume equaled prior year levels.

Grocery Products led the advance with a 13% increase reflecting volume gains principally in A.1. Steak Sauce and increased prices. KFC posted a 12% increase due to price increases, higher retail per store averages and acquisitions of new stores. Additional Company-owned and franchised Kentucky Fried Chicken stores in Australia and Japan, partially counterbalanced by decreased volume in Great Britain, contributed to a 5% gain at the International Foods Group.

In 1981, the Company's Food operations increased 22% due to gains in most major Grocery Products categories and higher Kentucky Fried Chicken retail per store averages, both domestically and overseas.

Beverage operations posted a 1% increase over prior year, continuing to reflect the worldwide industry trend. The Spirits Group operations posted no increases over the prior year although Black Velvet Canadian Whisky and Jose Cuervo Tequila experienced modest volume increases. Smirnoff Vodka volume declined 1% during the period. The Wines Group advanced 6% primarily due to price increases. Unfavorable exchange rates, coupled with depressed volume in Brazil attributable to continued recessionary pressures, contributed to a 7% decrease at International Beverages.

In 1981, the Company's Beverage operations declined 1% as a result of the general slowdown in the domestic beverage industry and inventory reductions.

Cost of Sales

Cost of sales advanced 1% over prior year with the Food operations experiencing the majority of the increase, mostly offset by decreases at the International Beverages Group. Higher volumes at KFC, Grocery Products and International Foods, offset by favorable costs of chicken and exchange rates, contributed to the increased costs.

Reductions in volume and the effect of exchange rates more than offset increased raw material costs in Brazil, leading to a favorable cost of sales impact for International Beverages. Reductions in volume at the Spirits Group were partially offset by higher packaging material costs, while the Wines Group experienced higher raw material costs.

The 1981 increase was attributable primarily to increased sales volumes and higher raw material prices, partially offset by lower costs for domestic Beverage operations.

**Selling, Advertising,
General and
Administrative
Expenses**

Selling, advertising, general and administrative expenses increased 10% over prior year. The Wines Group incurred substantial increases in advertising and promotional activities for Inglenook and Colony brands. KFC and International Foods increased spending in media advertising and promotions and incurred increased retail store costs as a result of additional stores, operating price increases and costs associated with domestic store closings. Increased advertising costs were also incurred by the Spirits and Grocery Products Groups.

In 1981, increases were registered in both Food and Beverage businesses as a result of higher advertising, merchandising and sales promotion expenses and increased retail Kentucky Fried Chicken store operating costs.

Interest Expense

Total interest expense advanced 16% over prior year. Increased short-term borrowings in Brazil to finance excise tax payments and inventories combined with higher rates to generate sharply higher interest expense at International Beverages. Decreased domestic borrowings and the acquisition of debentures resulted in decreased interest expense partially moderating the increase in Brazil.

In 1981, the increases resulted from higher interest rates and increased Brazilian borrowings.

**Corporate and
Miscellaneous — Net**

Corporate and miscellaneous — net, excluding the gain on debentures, decreased 10% from prior year, primarily attributable to substantially increased interest income resulting from significantly higher short-term investments, the absence of litigation costs incurred in the prior year and increased Corporate general and administrative costs pertaining to consultant expenses.

In 1981, the increases were attributable to litigation costs and increased general and administrative expenses.

Income Taxes

Income taxes increased 19% over prior year primarily as a result of an 18% increase in income before income taxes.


In 1981, the increases resulted from higher income before income taxes and higher state and foreign taxes.

**Responsibilities for
Financial Statements**

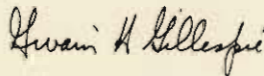
The financial statements included in this report were prepared by the Company in conformity with generally accepted accounting principles. These statements include certain amounts which are based upon informed estimates and judgments. Management is responsible for the integrity of the financial statements appearing in this annual report. Other financial information included in this report is consistent with these statements.

The Company maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded and that the financial records reflect the transactions of the Company. As a part of this process, the Company has an internal audit function which evaluates the adequacy and effectiveness of internal controls.

The Audit Committee of the Board of Directors is comprised of directors who are neither officers nor employees of the Company. The Committee meets periodically with management, internal auditors and the independent certified public accountants to review the adequacy of internal control and financial reporting. The Director of Internal Audit and the independent certified public accountants have full and free access to meet with the Audit Committee without the presence of management.



Hicks B. Waldron —
Chairman and President



Gwain H. Gillespie —
Senior Vice President—Finance & Administration

Consolidated Selected Financial Data

(Dollars in thousands except per share data)

	1982	1981**
Revenues	\$2,137,403	\$2,050,121
Cost and expenses:		
Cost of sales	1,397,109	1,381,606
Selling, advertising, general and administrative expenses	489,099	444,215
	<u>1,886,208</u>	<u>1,825,821</u>
Operating profit	251,195	224,300
Income before income taxes	197,730	168,036
Income from continuing operations	102,820	88,214
NET INCOME	102,820	88,214
Earnings per common and common equivalent share:		
Continuing operations	\$4.72	\$4.08
NET EARNINGS	\$4.72	\$4.08
Earnings per common share assuming full dilution:		
Continuing operations	\$4.53	\$3.92
NET EARNINGS	\$4.53	\$3.92
STATISTICS:		
Dividends declared	\$ 42,052	\$ 38,036
Dividends declared per common share	1.955	1.78
Earnings retained in the business*	60,768	50,178
Taxes of all kinds*	562,956	563,695
Capital expenditures	82,170	63,984
Depreciation and amortization*	46,922	42,722
Net property, plant and equipment	433,226	388,594
Total assets	1,176,108	1,122,852
Long-term obligations and redeemable preferred stock	212,264	224,997
Working capital	281,252	284,228
Common and common equivalent shares (thousands)	21,803	21,626
Common shareholders	20,614	22,485
Worldwide employment	34,262	28,540
RATIOS:		
Current ratio	1.9 to 1	1.9 to 1
Return on shareholders' equity*	17.6%	16.9%
Income as a percent of revenues*	4.8%	4.3%
Dividend payout percentage*	39.9%	42.1%

*Based on continuing operations.

**Restated in accordance with Financial Accounting Standard No. 43 for the change in accounting for compensated absences, the effect of which is not material.

1980**	1979**	1978	1977	1976	1975	1974	1973
\$1,921,879	\$1,769,074	\$1,620,112	\$1,550,902	\$1,583,133	\$1,414,415	\$1,240,142	\$ 966,139
1,325,293	1,222,693	1,139,387	1,094,151	1,100,170	988,872	854,504	661,806
401,384	376,405	334,065	318,098	323,151	277,943	255,998	201,776
<u>1,726,677</u>	<u>1,599,098</u>	<u>1,473,452</u>	<u>1,412,249</u>	<u>1,423,321</u>	<u>1,266,815</u>	<u>1,110,502</u>	<u>863,582</u>
195,202	169,976	146,660	138,653	159,812	147,600	129,640	102,557
146,908	131,019	109,300	95,998	130,286	121,477	111,024	89,544
77,870	68,130	56,290	48,617	65,881	59,907	52,341	42,667
77,870	68,130	56,290	41,417	73,065	61,405	54,410	30,411
\$3.64	\$3.19	\$2.65	\$2.27	\$3.06	\$2.82	\$2.47	\$2.04
\$3.64	\$3.19	\$2.65	\$1.93	\$3.39	\$2.89	\$2.57	\$1.45
\$3.50	\$3.09	\$2.58	\$2.22	\$2.96	\$2.71	\$2.40	\$1.99
\$3.50	\$3.09	\$2.58	\$1.91	\$3.27	\$2.78	\$2.49	\$1.45
\$ 34,566	\$ 31,631	\$ 29,269	\$ 27,333	\$ 24,838	\$ 22,711	\$ 20,497	\$ 18,095
1.625	1.49	1.38	1.29	1.175	1.075	.98	.91
43,304	33,882	27,021	21,284	41,043	37,196	31,844	24,572
588,398	554,484	506,726	469,903	486,338	452,885	421,249	341,247
73,854	72,896	68,931	56,858	54,215	59,164	59,259	38,954
39,806	33,837	30,413	27,211	25,052	24,131	14,919	10,750
372,043	345,109	313,665	288,062	279,327	252,932	189,880	148,858
1,048,792	978,997	883,246	842,193	848,871	769,985	677,564	532,382
226,609	236,172	225,566	226,890	231,888	237,453	202,268	120,646
262,841	254,443	236,418	232,405	228,948	217,297	212,800	124,800
21,404	21,363	21,251	21,435	21,537	21,217	21,166	20,932
24,328	26,620	28,247	29,071	24,769	27,174	27,493	28,537
27,062	24,922	22,817	22,789	24,871	25,912	24,711	18,300
1.9 to 1	2.0 to 1	2.0 to 1	2.1 to 1	2.0 to 1	2.1 to 1	2.2 to 1	1.8 to 1
16.5%	15.8%	14.1%	12.8%	19.0%	19.6%	19.3%	17.8%
4.1%	3.9%	3.5%	3.1%	4.2%	4.2%	4.2%	4.4%
43.4%	45.5%	51.2%	54.9%	36.9%	37.0%	37.9%	41.6%

Directors



HICKS B. WALDRON
Chairman and President



STUART D. WATSON
Consultant and Retired Chairman
Chairman, Executive Committee
Heublein Inc.



JOHN G. MARTIN
Consultant and Honorary Chairman
Heublein Inc.



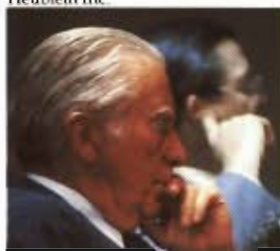
ARTHUR A. MILLIGAN
President, Bank of A. Levy



LISLE C. CARTER, JR.
Of Counsel, Lufert, Bernhard
and McPherson



EDWARD B. BATES
Chairman, Connecticut Mutual
Life Insurance Company



RALPH A. HART
Consultant and Retired Chairman
Heublein Inc.



GERALDINE STUTZ
President and Managing Director,
Henri Bendel



WILLIAM H. MORTENSEN
Personal Investments



CHARLES G. KLOCK
Retired President, General Electric
Credit Corporation



LEON W. HARMAN
President, Harman Management
Corporation (A franchisee for
quick-service restaurants)



JAMES F. ENGLISH, JR.
President, Trinity College



EDWARD H. HAMM
Vice President, The Northland Co.
(A financial service company)

ROBERT L. TRESCHER
Senior Partner, Law Firm of
Montgomery McCracken, Walker
& Rhoads



**FRANCES
HEUBLEIN O'DELL**
Honorary Director



LESTER E. SHIPPEE
Honorary Director

Committees of the Board

EXECUTIVE COMMITTEE

STUART D. WATSON*
EDWARD B. BATES
JAMES F. ENGLISH, JR.
CHARLES G. KLOCK
JOHN G. MARTIN
ROBERT L. TRESCHER
HICKS B. WALDRON

AUDIT COMMITTEE

ARTHUR A. MILLIGAN*
LISLE C. CARTER, JR.
ROBERT L. TRESCHER

COMPENSATION AND BENEFITS COMMITTEE

JOHN G. MARTIN*
EDWARD B. BATES
JAMES F. ENGLISH, JR.
CHARLES G. KLOCK
ROBERT L. TRESCHER

FINANCE COMMITTEE

CHARLES G. KLOCK*
EDWARD B. BATES
JAMES F. ENGLISH, JR.
HICKS B. WALDRON
STUART D. WATSON

NOMINATING COMMITTEE

EDWARD B. BATES*
JAMES F. ENGLISH, JR.
JOHN G. MARTIN

SOCIAL RESPONSIBILITY COMMITTEE

LISLE C. CARTER, JR.*
EDWARD H. HAMM
LEON W. HARMAN
GERALDINE STUTZ

*Chairman of Committee

Corporate Officers

HICKS B. WALDRON
Chairman and President

GWAIN H. GILLESPIE
Senior Vice President —
Finance & Administration

MICHAEL A. MILES
Senior Vice President —
Foods

JOHN A. POWERS
Senior Vice President —
Alcoholic Beverages

HUGH R. BEATH
Vice President —
Group Executive
Grocery Products Group

ROBERT N. HIATT
Vice President —
Group Executive
International Foods Group

JOHN F. KELLER
Vice President —
Group Executive
Wines Group

RICHARD P. MAYER
Vice President — Group
Executive, Food Service &
Franchising Group

BARRY M. ROWLES
Vice President —
Group Executive
International Beverages/
Brazil Group

ROBERT R. WEISS
Vice President — Group
Executive
Spirits Group

GEORGE CASPAR
Vice President,
Secretary and
General Counsel

JOHN F. COX
Vice President —
Public Affairs

GENE R. EHLEN
Vice President,
Finance

CHARLES J. HERBERT
Vice President,
Spirits Sales Division

WILLIAM W. MAURITZ
Vice President —
Human Resources

JOSEPH M. MCGARRY
Vice President —
Corporate Affairs

ROBERT W. PRATT, JR.
Vice President,
Planning and Research

**THOMAS D.
CHROSNIAK, JR.**
Treasurer

JAMES M. DORAN
Controller

Transfer Agents

The Bank of New York, 90 Washington Street, New York, New York 10015
Bank of America, N.T. & S.A., 55 Hawthorne Street, San Francisco,
California 94105

Registrars

The Bank of New York, 90 Washington Street, New York, New York 10015
Wells Fargo Bank, N.A., P.O. Box 44011, San Francisco, California 94144

Trustees

4 1/2% Convertible Subordinated Debentures

United States Trust Company of New York, 45 Wall Street, New York, New York 10005

8 3/8% Notes

Morgan Guaranty Trust Company of New York, 30 West Broadway,
New York, New York 10005

Heublein's 1982 Annual Report on Form 10-K as filed with the Securities and Exchange
Commission will be available upon request from the Corporate Secretary, Heublein
Inc., Farmington, Connecticut 06032.

Corporate Management Committee



With Chairman and President Hicks B. Waldron, right, at Heublein's headquarters in Farmington, Connecticut, are Senior Vice Presidents, left to right, John A. Powers, Michael A. Miles, and Gwain H. Gillespie.



Heublein's corporate staff vice presidents are, left to right, George Caspar, Gene R. Ehnen (seated), William W. Mauritz, Robert W. Pratt, Jr., (seated), John F. Cox, and Joseph M. McGarry.

Operating Group Vice Presidents



Robert R. Weiss
Spirits Group



Barry M. Rowles
International Beverages/
Brazil Group



John F. Keller
Wines Group



Richard P. Mayer
Food Service and
Franchising Group



Hugh R. Beath
Grocery Products
Group



Robert N. Hiatt
International
Foods Group

Principal Offices

Corporate Headquarters Farmington, Connecticut 06032 — (203) 677-4061

Food Service and Franchising Group Headquarters

1441 Gardiner Lane, Louisville, Kentucky 40232 — (502) 456-8300

Kentucky Fried Chicken, Zantigo America's Mexican Restaurants, H. Salt Seafood Restaurants

Grocery Products Group Headquarters

4 Farm Springs Drive, Farmington, Connecticut 06032 — (203) 677-7441

International Beverages/Brazil Group Headquarters

4 Farm Springs Drive, Farmington, Connecticut 06032 — (203) 677-7441

International Foods Group Headquarters

1441 Gardiner Lane, Louisville, Kentucky 40232 — (502) 456-8300

International Vintage Wines

330 New Park Avenue, Hartford, Connecticut 06101 — (203) 233-7531

Spirits Group Headquarters

330 New Park Avenue, Hartford, Connecticut 06101 — (203) 233-7531

Wines Group Headquarters

601 Fourth Street, San Francisco, California 94107 — (415) 777-6500

United Vintners, Inc.



HEUBLEIN INC. FARMINGTON CONNECTICUT 06032

